

Between a Rock and a Hard Place: Dealing with the Economic Explanation of Voting Choice*

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Abstract

Economic voting theory provides an important rationale to representative governments. However, the economic explanation of voting choice find itself between a rock and a hard place: the retrospective/sanctioning approach on the one hand, and the prospective/selection one on the other. This paper suggest that the integration of these two perspectives might lead to a superior solution, and provides a simple model of “Selection and Updating”. The empirical assessment is made with reference to two political elections held in Italy (2006) and in the UK (2005). Evidence is found for the British case, while the Italian one remains puzzling.

1 Introduction

Economic voting is the theory, as well as the field of studies, that connects electoral support to economic aspects. The fundamental proposition in economic voting is that when the economy goes well (bad), popularity and the electoral support of the incumbents will raise (decrease). There are two main justifications for economic voting research: under the empirical point of view, this set of studies contributes importantly to our understanding of voting choice, leading to improvements in the predictive power of voting models. In the second place, economic voting research is also grounded in the Millian idea of the representative government. In fact, representative democracy works properly only insofar as the citizens are able to control effectively their own representatives, and to select the best political alternative in terms of their own well-being. Moreover, it is increasingly recognized that globalization of economic activities may strengthen the frequency (for someone also the

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magnitude) of financial and economic crises ¹. Therefore, economic integration represents a two-sided phenomenon: if on the one hand we are willing to accept the benefits of an increasingly globalized world, on the other we should also retain as possible a scenario in which democratic regimes will be endemically affected by economic crises that are likely to erode governments' political support.

Economic voting research must therefore improve the explanatory capacity of its models in order to provide an answer to crucial questions: what are the effects of recurrent economic crises on the political choice of the electorate? Which consequences may emerge in terms of democratic accountability in the long run?

Unfortunately, much empirical evidence seems not to suggest a stable and persistent effect of economic outcomes on political support neither across countries, nor across time, parties, political systems, and groups (Paldam 1991; McDonald and Budge 2005; Anderson 2007; van der Brug *et al.* 2007; Lewis-Beck and Paldam 2000; Dorussen and Taylor 2002). Most importantly, the contingency of empirical results of economic voting models involves the normative ground of representative democratic political institutions (Anderson 2007). The lack of stable results leads to the following consideration: if the intermittent evidence reported in literature is only *apparent* (Lewis-Beck and Paldam 2000; Bellucci and Lewis-Beck 2010), then the source of instability in the results is related to the empirical misspecification of economic voting models, and a better and more encompassing models might produce more stable results. However, if the instability of results is instead substantial (or *inherent*), then a general model of economic voting may not even exist, and in this case the same normative rationale of representative government would be under threat (Anderson 2007). Leaving apart these normative aspects, it should be noticed that if a law linking economy to popularity or electoral choices does exist, it is likely to be *conditional*, but we still lack a satisfying description of its conditions of existence.

The present article tries to shed a light on these problems of economic voting research, whose models still fail to produce a systematic explanation of how the economy may affect voting choice. In particular, the perspective in this study is focused on the nature of *individual constraints* (Anderson 2007) to economic voting, rather than exploring, as others have done, the variation in the institutional and economic context (Lewis-Beck 1988; Duch and Stevenson 2008; Anderson 2007; Powell and Whitten 1993; Norpoth 2001; Lewis-Beck and Mitchell 1993; Paldam 1991; Stein

¹To say it with the words of the Nobel price-awarded economist Paul Krugman (2000: 76): “*The answer I will suggest is that growing integration does predispose the world economy toward more crises [...]*”. Krugman, P. (2000). *Crises: the price of globalization?* Proceedings, Federal Reserve Bank of Kansas City, pp. 75-106.

1990; Duch and Stevenson 2008; van der Brug *et al.* 2007). In a nutshell, the main idea behind this paper is that we would probably obtain superior solutions overcoming the main element of division in economic voting research: the distinction between a retrospective-sanctioning perspective, that stresses the accountability of politicians, conceives the electorate as focused on politicians' moral hazard problem, and that identifies the caricature of the economic voter in a peasant, vs. a prospective-selection perspective that stresses the capacities of politicians, depict the electorate as oriented towards politicians' adverse-selection problem, and that represents the economic voter as a banker. This paper agrees therefore with Dorussen and Taylor's (2002: 303):

The model of the economic voter, at least in the political science literature, may thus find itself between a rock and a hard place. On the one hand, the psychology of the economic voter is clearly underdeveloped. On the other hand, the claim that the model of economic voting as a rational-instrumental act applies fairly directly to reality raises several serious questions.

In the present paper, a “*Selection and Updating*” economic voting model integrates the two approaches, providing a new insight on the economic voter's choices. A representative individual faces the electoral decision on the one hand “updating” his evaluations regarding the incumbent performance, while on the other “selecting” the most competent viable alternative.

The paper proceed as follows: Section 2 (briefly) recall the critical points in economic voting research; next, the Selection and Updating Model (SUM) is presented; section 4 introduces the empirical analyses; section 5 concludes.

2 Literature Review

The question regarding which kind of connections might occur between the economy and the vote is an old one: in 1926, Rice² pioneered the adoption of statistical techniques studying the effect of business cycles in New Jersey's elections between 1877 and 1924, finding a:

[...] *positive coefficient of correlation of .449, suggesting some relationship between business prosperity and the state of mind in the electorate which*

²Rice, S. (1926). *Some Applications of Statistical Methods to Political Research*. Political Science Review. Vol. 20: 313 - 329.

*results in the reelection of experienced congressional incumbents*³.

Eighty-five years after, this simple statement is still disputed (Evans and Pickup 2010). Without looking so back in time, it is reasonable to say that all the ingredients contained in the current debate about *whether*, *why*, and (eventually) *how* economic events shape citizens' perceptions, evaluations and voting behavior were present in Chapter 14 (“*The Economic Antecedent of Political Behaviour*”) of *The American Voter* (Campbell *et al.* 1960). The vast literature that followed in last fifty years, will be briefly presented here as focused around the broad issue of the adoption of a sanctioning/retrospective or rather a selection/prospective theoretical framework.

The work of Key (1966), Kramer (1971), Barro (1973) and Fair (1978) introduced the idea that voting choice was produced more by evaluating past or current changes in economic conditions than by carefully comparing all the available political options, thus simply punishing or rather rewarding the incumbent for - respectively - bad or good performances in managing the national economic policy. This simple idea represents the core of the sanctioning/retrospective model of economic voting, whose general version was firstly proposed by Fiorina (1981), that explicitly introduced economic considerations in the voters' utility function in the framework of the expected utility theory. The retrospective economic voter uses the information he has collected about current and past changes in the economy to elaborate forecasts about the future. The model was further developed by Ferejohn (1986), which shows the limits that are likely to be posed to the electoral control of the incumbent when the electorate shows heterogeneous preferences. He also provided a formal justification for the stronger evidence of sociotropic survey items (i.e. respondents' assessment of changes in economic conditions of the whole country) over egotropic ones (i.e. respondents' assessment of changes in personal economic conditions).

Neither of these formalizations contains explicit predictions about the reasons why the extent of the reward/punishment mechanisms may vary across countries or time. The question about this variation, although tightly related to the problem of intermittent empirical results, remained essentially unanswered during years. In fact, even if the first lights of an answer are to be found in the work of Stigler (1973), who related for the first time the intermittent empirical results of economic voting models to the differences in the *powers* or *responsibilities*⁴ of the incumbent party, this brilliant idea however did not receive careful attention up to Powell and Whitten (1993), that formulated the influential “clarity of responsibility” hypothesis. In their paper, Powell and Whitten proposed an innovative empirical strategy,

³Ibid.: 328.

⁴Stigler (1973: 164).

shared with the many who followed their approach, as (Anderson 2000; Lewis-Beck and Nadau 2000; Taylor 2000; Hellwig 2001; Nadau, Niemi and Yoshinaka 2002). They distinguished different sub-sets of elections differing for the institutional conditions. Contextual variation, in turn, has been shown to exert a powerful influence on the effectiveness of the control by the government on economic policy. The main finding of this stream of research is that in those institutional contexts where the responsibility of the incumbent is clearer and stronger (i.e. single-party and majority governments dealing with small exogenous macroeconomic shocks), the effect of economic outcomes on voting choice will result more robust and stronger. Hibbs (2006) further filled the theoretical gap of this - fundamentally empirical - result, completing the adoption of the error-in-variables specification-error model (Kramer 1993) to the problem of the instability of economic voting.

An alternative - and to some extent less developed - view about economic voting posits that (instrumentally rational) voters do more than simply rewarding or punishing the incumbent, actively selecting the most competent among the political candidates to the government. The *selection perspective* is inevitably future-oriented, and thus adopts a logic complementary to pure retrospective models. This alternative line of reasoning represents a promising approach to explain intermittent results in economic voting (Cheibub and Przeworski 1999; Fearon 1999). The core of selection models is the signal-extraction problem that voters face when evaluating the economic competency of political actors. Duch and Stevenson (2008) brings further this approach to explicitly account for differences in political and institutional context.

Moreover, the debate around the relevance of retrospective or prospective evaluations, in economic voting models' evolution implicitly resembles the path followed in economics by expectations: retrospective voting closely resembles the logic behind *adaptive* expectations (Hicks 1939; Nerlove 1958), in which the prevision about the new period is formed from the discrepancy between expected current performance and actual current performance, while prospective models closely resemble the logic of *rational* expectations (Muth 1961; Lucas 1972), where the individuals are supposed to make use of all the available information to elaborate their forecasts. Making use of the tools coming from the rational expectations theory, economists and political scientists started to stress the critical role played by the information about government competencies, elaborating the consequences for economic voting of rational expectations about party and government competency (Rogoff and Sibert 1988; Cukierman and Meltzer 1989; Persson and Tabellini 1990; Alesina and Rosenthal 1995; Persson and Tabellini 2003). Political scientists are actually divided about which between the aforementioned perspectives should be taken into account:

in their influential article, MacKuen Erikson, and Stimson (1992) describe two possible caricatures representing the economic voter: the *peasant*, that uses a relatively low amount of information to shape its political attitudes and undertake its electoral decision, and the *banker*, that is a highly informed and rational thinker. While the peasant is retrospectively-oriented, the banker is instead prospective in essence: the expected future performance of the government is all that matter to cast a ballot. Therefore, in the case of the peasant the causes of variation in political support and changes in electoral choices are supposed to be identifiable in the realization of an economic shock, while in the case of the banker, it is the anticipation of economic shocks that matters (MacKuen Erikson, and Stimson 1992). This study, providing a time-series analysis for U.S. presidential approval, suggests the conclusion that : *“The electorate is foresighted rather than myopic. If the economy is rosy but with dark clouds at the horizon, the electorate responds to clouds, not to roses”* (MacKuen Erikson, and Stimson 1992: 606). This result has not remained uncontested. Clarke and Stewart (1994) have in fact suggested that, once properly controlled for the stationary of the presidential popularity time-series, retrospective as well as prospective economic considerations are influential.

More recently, Dorussen and Taylor (2002) have raised the important point of a correct psychological understanding of the mechanisms behind electoral choice as a further potential way to deal with intermittent economic voting models’ results. To use the Anderson’s (2007) terminology, the contextual variation deals with the institutional constraints of economic voting, while psychological conditions are obviously individual constraints that are likely to cause the observed contingency in empirical results (or “instability dilemma”). However, our understanding of institutional constraints has been developed further than our explanation of the psychological ones. Moreover, it is still unclear what type of psychological control would afford greater stability to the vote and popularity (or “VP”) function. On the one hand Palmer and Whitten (2002) suggest the important role of loss and risk-aversion in weighting political behaviors by economic considerations. On the other, differences in the relative importance of economic aspects might be linked to the reasoning voter’s model (Popkin 1991), and an important driving factor could be represented by differences in individuals’ level of political sophistication. Finally, it has been argued that the importance of the emotional dimension in economic voting has been underestimated, while it might play part in the relationship between the economy and political decisions (Peffley 1984; Conover and Feldman 1986; Clarke, Stewart and Whiteley 2002; Fraile 2002).

3 A “Selection and Updating” economic voting model

The failure of standard economic voting models to take into account much of the cross-country and cross-time variation represents the biggest limit to our understanding of voters’ political choices. Up to this point, empirical tests of economic voting could not provide stable evidence of the role of the economy on representatives’ selection. As recalled, this cast further doubts concerning the same normative foundations of representative political institutions. Therefore it urges an improvement in our analytical capacity of assessing the effective role of the economy on voting choice, because a situation characterized by a prolonged substantial lack of accountability of elected politicians may potentially become dangerous in terms of political stability in our democracies. To get this important result, we need to improve both our analytical tools of investigation as well as the theoretical framework in which they are embedded. As for the theoretical aspect, the improvement of economic voting models requires the creation of wider and more encompassing explanations, since the contingency of results - either *inherent* or *apparent* - calls for a *conditional* validity of these models. Therefore, economic voting is configuring as a mechanism whose functioning depends on a set of different conditions. The elaboration of a parsimonious theoretical framework that is able to produce empirically stable observable implications is the fundamental step to be undertaken.

In the first place, we have to recognize that both the retrospective/sanctioning and the prospective/selection approaches are well-grounded theories. However, voters’ choice cannot be reduced neither to the evaluation of the past performance of the incumbent, nor to the selection of the best future policy-maker. Therefore, individuals’ expectations about the future economic performances of the incumbent, as well as those of the alternative political parties, should be explicitly taken into account in the voting function. Notwithstanding, the electorate is not purely prospective neither selective, because it has (however limited) memories and opinions regarding the past governing experience. Hence, the retrospective evaluation of the incumbent performance should also be taken into account. I will try to introduce this idea in the most straightforward way, using a basic notation.

Stated in an extremely concise form, the idea of pure retrospective economic voting models is that voters will reward the incumbent if he made a good job with the economy or will punish him (don’t casting the ballot in his favor) if he did not. Therefore, if we consider the problem faced by an homogeneous electorate represented by voter i in hypothetical political elections taking place between the incumbent party candidate (I) and a set of $\{\mathbb{P} - I\}$ viable political alternatives, the

voting function can be represented as follows:

$$V_i = \begin{cases} 1 & \text{if } U_{I,i,t-1} = h_I > \bar{U} \\ 0 & \text{if } U_{I,i,t-1} = l_I < \bar{U} \end{cases} \quad (1)$$

Where: $V_i = 1$ if the voter cast his ballot for the incumbent, and $V_i = 0$ if he does not⁵; $U_{I,i,t-1}$ is the utility flow deriving from the economic policy of the incumbent (I) to the individual (indexed by $-i$), at time $t - 1$ (i.e. in the year before the elections). If what the voter got from the incumbent (h_I , high incumbent's economic performance) is higher than a threshold utility level (\bar{U})⁶ then he will vote for the incumbent, if instead he observed a poorer economic performance (l_i , low economic performance), then he will punish the incumbent. The basic problem faced by the representative voter in a retrospective economic voting model, is to discipline the incumbent party and dealing with the problem of *moral hazard*: in fact, irrespectively from others candidates or parties ability, if the incumbent behaves bad and is not punished, the next incumbent will perform badly too, anticipating that the electorate will not punish her bad performance. All that matters here is therefore *accountability*. The past economic performance of the incumbent is evaluated, while we are not taking into account the role played by any other of the viable political alternative. This unrealistic - and often implicit - assumption substantively reduces the predictive power of retrospective models of economic voting.

This last criticism has lead researchers to provide an alternative explanation of voting choice, producing selective economic voting models. In a concise way, the idea behind these models is that voters are future-oriented and that they will vote for the incumbent if they expect a positive management of economic policy for the future mandate. The voting function can therefore be represented as follows:

$$V_i = \begin{cases} 1 & \text{if } E[U_{I,i,t+1}] > E[U_{p,i,t+1}] \text{ and } E[U_{I,i,t+1}] > \bar{U}, \quad \forall p \in \{\mathbb{P} - I\} \\ 0 & \text{if } \exists p \in \mathbb{P} : E[U_{p,i,t+1}] > E[U_{I,i,t+1}] \text{ and } E[U_{p,i,t+1}] > \bar{U} \\ \cdot & \text{if } E[U_{p,i,t+1}] < \bar{U}, \quad \forall p \in \mathbb{P} \end{cases} \quad (2)$$

where, for instance, $E[U_{I,i,t+1}]$ represents the expected utility flow that party I (the incumbent) will generate for the individual i at time $t + 1$; to simplify the intuitions, I will refer to g_I to indicate a *good forecasted* economic performance

⁵He may vote for alternative parties or abstain.

⁶As aforementioned, voters are assumed here to be homogeneous as for the utility threshold. This assumption could be relaxed by introducing an individual value \bar{U}_i . However, this possibility is not explored in the present work.

of the incumbent (i.e. if $g_I = E[U_{I,i,t+1}] > E[U_{p,i,t+1}]$); analogously, b_I will be used to indicate a *bad anticipated* economic performance by the incumbent (i.e. if $b_I = E[U_{I,i,t+1}] < E[U_{p,i,t+1}]$). Therefore, voters will vote the incumbent if the expected value of the future utility⁷ coming from the incumbent is greater than the threshold utility level $g_I > \bar{U}$, while otherwise they will not vote for him ($b_I < \bar{U}$). The retrospective/sanctioning approach to economic voting pays its simplicity in empirical applications in terms of an unrealistic assumption about voters evaluations: if voters decide whether to reward or punish the incumbent by looking at past economic performance, then we are implicitly overlooking at the propensity of the electorate to vote for the alternative parties. The same is true for prospective/selection models, which basically assume an electoral amnesia: the problem faced by the prospective/selective economic voter is the *adverse selection*. Irrespective of the incumbent party's performance, the representative voter will cast her ballot for the (prospectively) more competent party. However, this conduct creates an inverse incentive for the incumbent. In fact, if the governing party realizes that is not being perceived by the electorate as the best party, then it will not have any incentive to perform well, since it anticipate the most competent party's victory. The main question at this point becomes: how can we improve this state of things?

To produce a more encompassing economic voting model, we have to analyze in a more detailed way the individual's voting choice. Let's introduce the following voting function (3), which considers the choice made by individual $-i$ in two different cases. In the first case, the individual is *satisfied* about the past economic performance of the incumbent I and he is also *optimistic* about her future management of the economy (line 1).

In order to avoid misleading interpretation, consider that the use of the term "*optimism*" refers here to the situation in which the individual trusts the economic capacities of the incumbent (with respect to the perceived ability of the others' viable political alternatives). In a purely instrumentally-rational perspective, this would mean that the individual is able to collect and evaluate all the information needed to perfectly anticipate future expected shocks and to fully understand the true (future) economic capacities of political parties (or candidates). However, the simple model presented here does not go that far. In the present framework the individual evaluation of political candidates is allowed to be based also on *affective* considerations, which have been shown to play a significant role on political behaviors (Bellucci 2006). There could have been preferred different terms such as "good forecasted performance", but would have implied that the electorate (or the representative median voter) is able to perfectly assess the future management of economic

⁷Notice the time indexed at $t + 1$.

affairs, while this assumption is not needed in the present framework. Therefore, to believe in one candidate or party competence is better interpretable here in terms of an optimistic or pessimistic evaluation of the incumbent's performance with respect to the others parties, rather than in a completely aware evaluation about parties or candidates' economic capacities. Therefore, the rationality of the representative voter is here assumed to be bounded in the sense that the assessment of party or candidates' ability are imperfectly and subjectively evaluated.

In the second one, (line 2) the representative voter makes *complaint* of the past economic policy and is also *pessimistic* about the future incumbent's economic performance (line 2):

$$V_i = \begin{cases} 1 & \text{if } \bar{U} < h_I < g_I \\ 0 & \text{if } \bar{U} > l_I > b_I \end{cases} \quad (3)$$

In line 1, the voter $-i$ will vote for the incumbent since his (estimated) utility from the economic management is higher than the threshold utility level (i.e. $h_I > \bar{U}$, voter is satisfied by the incumbent past performance and he would reward him), which in turn is lower than what he expects the incumbent might do in the future (i.e. the individual is also optimistic about the future performance). In the second line of equation (3) instead, the voter will punish the incumbent since their evaluation of the utility coming from the economy is lower than its requested *minimum* (i.e. he is not satisfied and he would punish the incumbent, as $g_I > \bar{U}$); moreover, this (past) disappointing result is even greater than what voter $-i$ expects from the incumbent in the future (i.e. future performance is expected to be disappointing again).

The voting choice contained in equation (3) is practically self-evident, but what would happen in intermediate situations? Equation (4) introduces the voting choice of a *satisfied but pessimistic individual*. In this case, voter $-i$ would be willing to reward the incumbent, since he got an unexpected utility surplus in the previous period. In fact, given that the incumbent made better than voter's threshold level (i.e. $h_I > \bar{U}$), the voter unexpectedly received a utility surplus (π) given by $\pi = h_I - \bar{U} > 0$; therefore, the individual will now use this additional information to *update* his evaluation of the incumbent for the next elections. However, voter $-i$ now also expects a negative future economic performance of the incumbent, i.e. $b_I < \bar{U}$. The voting choice can therefore be represented as:

$$V_i = \begin{cases} 1 & \text{if } b_I + \pi \geq b_p; \quad \forall p \in \{\mathbb{P} - I\} \\ 0 & \text{if } b_I + \pi < b_p; \quad \forall p \in \{\mathbb{P} - I\} \end{cases} \quad (4)$$

That is, in line (1) of equation (4) the individual will vote for the incumbent if

the future expected benefit *plus* the past unexpected benefit from the incumbent's economic performance is greater or equal⁸ to the future expected benefit from *any of the viable political alternates*, obviously excepting the incumbent itself. Voter $-i$ will instead deny its vote to the incumbent when the expected future benefit from any of the *viable alternatives* will outperform the expected future benefit from the incumbent *plus* the previous unexpected surplus (π), as happens in line 2. Notice that, already in this simple model, we are considering, on the one hand, a voting choice in which the individual is actively *selecting* the best viable alternative among the many political parties, and on the other, the individual is also retrospectively correcting his evaluation of the incumbent, *updating* his expectations adding the (previously unexpected) utility surplus.

What happens when voter $-i$ makes complaint of incumbent's past economic performance while being instead optimistic about incumbent's future performance? In this case, the individual will take into account in his voting function the unexpected utility *loss* created by the incumbent's past economic policy: since he is retrospectively not satisfied ($l_I < \bar{U}$), then in the next elections he will discount the incumbent with the unexpected loss λ : $\lambda = \bar{U} - l_I$. Equation (5) introduces this last case:

$$V_i = \begin{cases} 1 & \text{if } g_I - \lambda \geq g_p; \quad \forall p \in \{\mathbb{P} - I\} \\ 0 & \text{if } g_I - \lambda < g_p; \quad \forall p \in \{\mathbb{P} - I\} \end{cases} \quad (5)$$

In this case, the individual retrospectively punishes the incumbent considering the past unexpected loss (λ) and thus reducing the propensity to vote for him, while prospectively taking into account the utility coming from all the viable alternative future economic performances. In line (1), even considering the bad past performance, the incumbent option remains the best choice; in line (2), the individual will likely vote for an alternative party, namely the one delivering the highest utility value: $p : \arg \max_p (g_p, p \neq I)$.

This process of *selection and updating* may represents a way to solve the theoretical dualism affecting actual economic voting models: in fact, in the present specification the representative voter faces not just a moral hazard or an adverse selection problem, but rather the *trade-off* between them. On the one hand, voters know that the incumbent needs to be constrained by their electoral decision in order to discipline the performance of the future incumbent, but on the other hand, they are also aware of the importance of selecting good political actors. The trade-off

⁸I am assuming here that if voters are indifferent between voting for the incumbent or not, then they will vote for him.

nature of the voter’s problem becomes clearer as we consider that if the representative voter weights relatively more the *moral hazard* part of the problem (i.e. given the same incumbent’s performance λ and π are higher)⁹, then in case of past bad (good) incumbent’s performance he will be willing to accept relatively less competent political representatives in order to punish (reward) the incumbent, thus paying the stricter control on moral hazard’s behaviors in terms of a less demanding selection of alternative candidates or parties. Alternatively, lower λ and π given the same incumbent’s performance would represent a situation in which the representative voter weights more heavily the *adverse selection* problem with respect to the moral hazard one, and he will be willing to accept poorer economic performances of the current government in order to select (future) more competent parties or candidates.

This simple economic voting model has the merit of being more encompassing than the previous ones while retaining the merits of both prevailing approaches in economic voting theory. This selection and updating economic voting model has the additional advantage of providing the following empirically-testable hypothesis:

H_1 : Prospective Optimism Hypothesis.

The POH can be briefly characterized as follows: *The individual evaluation of past economic performances of the incumbent will have an effect on individual electoral preferences and behaviors that is conditional on the optimism or pessimism about the estimated future capacity of any other political alternative.*

The following section deals with the empirical assessment of this hypothesis.

4 Empirical analysis

The theoretical model presented in Section 3 will be tested, for exploratory purposes, through a comparison of Italy and the United Kingdom. The choice of these two countries responds to the crucial requirements of the Most Different System Design (MDS) of comparative research. As a matter of fact, the British and Italian political systems provide a great variability in under a number of crucial respects. At first, Britains own first-past-the-post electoral system has resulted in its traditional two-and-a-half party system, whereas the brand-new proportional system in use in Italy

⁹This can be easily interpretable in terms of a composite term $\lambda = \alpha L$; where λ is again the unexpected loss term, $0 < \alpha < 1$ is a weight attached to each loss unit, and L represents the number of loss units. Therefore we can imagine an hypothetical case of voters heterogeneity as for the loss weights ($\alpha = \alpha_i$) or that the representative voter weights different incumbents or the incumbent in different elections in different ways ($\alpha = \alpha_t$).

since 2005 allows parliamentary representation to all parties above the 2% threshold. Secondly, the choice of these two countries contrasts a context characterized by an abrupt change in the party system as a result of the mid-1990s breakdown (Italy) with that of a much more enduring party system (UK) (Bellucci 2006). Overall, the British and Italian cases provide a good ground testing the “selection and updating” model of economic voting behaviors.

The data comes from two national election studies conducted in 2005 (Britain) and 2006 (Italy) respectively. The choice of these two elections is based on survey design (pre-post election studies) as much as on contingent political factors that characterized these contests. As to the former aspect, the choice to employ short panels is made instrumentally in order to face - at least indirectly - the recent criticisms about the same existence of an economic voting mechanism that have been raised by those which are referred to by Lewis-Beck, Nadeau and Elias (2008) as “revisionists” (e.g. Evans and Andersen 2003, 2006; Evans and Pickup 2010). This scholars emphasize how existent evidence about economic voting might be spuriously driven by the reversed causal effect proceeding from voting choice: “*short-term economic expectations are strongly influenced by political factors*” (Evans and Pickup 2010: 1237). While this point seems to be fairly reasonable, some of them are inclined towards a more extremist position, being ready to claim that: “*individuals’ perceptions of the macro economy do not explain their political preferences, in fact the direction of causality is reversed: economic perceptions are derived from political preference*”. Obviously, this position is perfectly legitimate. However, what seems not to be legitimate, is the use of Simultaneous Equation Models (SEMs) to infer something about causality when the autonomy requirement of the equations does not hold. In this situations the causal structure should not be taken for granted, and the estimated coefficients should not be taken as evidence for “*reversing the causal arrow*”. To say it with the words of Wooldridge (2010: 238): “*causality is closely tied to the autonomy requirement*”¹⁰. However, the more reasonable concern that regression coefficients’ of economic perceptions might be conflated by the supposed reversed causality proceeding from vote choice remains unanswered. While this paper does not face directly this important question, the empirical specification will try to take into account this point exploiting the “pre-post” data structure and the basic notion that what happens *before* cannot be the consequence of what happens *after* (Granger 1974).

¹⁰One of the possible reasons for the expansion of SEM applications in contexts that do not satisfy the autonomy requirement is put forward by Wooldridge (2010), which argues that: “*there appears to be a general misperception that “structural” and “simultaneous” are synonymous [...] [while] a simultaneous model is not necessarily structural*” (Wooldridge 2010: 241).

The main regression will therefore look like:

$$\begin{aligned}
 Y_{i,post} = & \beta_0 + \beta_1 \text{Performance}_{i,pre} + \beta_2 \text{Economy}_{i,pre} + \\
 & + \beta_3 \text{Interaction}_{i,pre} + \beta_4 \text{Vote}_{i,t-1} + \mathbf{X}\beta + \varepsilon_i
 \end{aligned}
 \tag{6}$$

Where: $Y_{i,post}$ represents our measure of voting preferences; $\text{Performance}_{i,pre}$ is an index of voters' subjective assessment of the incumbent economic performance measured in the pre-election survey, conducted few months before the elections take place; $\text{Economy}_{i,pre}$ is the individuals' retrospective sociotropic evaluation of the state of the economy; $\text{Interaction}_{i,pre} = \text{Performance}_{i,pre} \times \text{Economy}_{i,pre}$ is the interaction term between our key regressors; $\text{Vote}_{i,t-1}$ is the individuals' reported vote choice at the previous political elections, and is able to control at least in part the reverse causal channels suggested by (Evans and Pickup 2010); $\mathbf{X}\beta$ is a set of further controls including age, gender, education level, subjective social class, political sophistication, party identification, generalized issue proximity (left-right self-placement). ε_i is the idiosyncratic random error term.

In order not to falsify the "Selection and Updating" model and the H_1 hypothesis, the empirical analysis should produce a statistically significant coefficient β_3 , signaling that the retrospective evaluation of the economy is in fact interacting with the future expected management of the economy by the political alternatives, as measured by the competence indexes. Moreover, we expect this coefficient to be negative, i.e. $\beta_3 < 0$. In fact, this would confirm that the effect of retrospective economic evaluations on party preferences decreases as the economic competence increases.

Our empirical analysis deserves some further consideration. It focuses on the determinants of electoral preferences. Generally, political researchers face the problem of the nominal nature of the dependent variable in two ways. A possible way to deal with the operationalization of the vote choice is to assign a value 1 if the individual cast its ballot in favor of the incumbent party, and a value of 0 if the voter choose to vote for an opposing party. This approach is fairly common in testing economic voting theories, where the performance of the incumbent is usually among the key predictors, or in two-parties political systems, such as the U.S. Another solution, more common in European electoral research, consists in making use of discrete-choice models such as multinomial logit (MNL) or probit (MNP) regression. This second solution can be problematic for at least three orders or reasons. Firstly, as this methods becomes useful especially in multiparty political systems, this models can only rarely provide reliable estimates for small parties, whose voting function is extremely skewed (van der Brug and Mughan, 2007). Secondly, the label "multinomial" includes a variety of discrete-choice models that presents different peculiarities

and drawbacks. In particular, both MNL and MNP modeling techniques share a similar structure with the important difference that the distribution of the error term in the former is assumed to be very simple and tractable (the Type-I Extreme Values) while for the latter is assumed to be normal. Moreover, the MNL allows only the inclusion of explanatory variables varying across the observations (e.g. voters) and provides a set coefficients (i.e. one for each alternative) whose identification is heavily dependent on the “Independence of Irrelevant Alternatives” assumption, which is unlikely to be satisfied in most real political systems.

An alternative solution that has been proposed by electoral scholars consists in measuring party choice on the basis of observed electoral utilities proceeding from political parties and in “stacking” the data matrix in order to obtain a data structure defined at the level stemming from the interaction of individuals and parties (van der Eijk *et al.* 2006). In our analysis, it is employed such transformation of the data matrix. Therefore, by stacking our data, we are able to avoid the methodological and theoretical drawbacks of MNL models, and to opt for a less problematic linear regression model. Following the logic of the stacked data matrix, the unit of analysis is represented by *respondent* \times *party* combinations.

The dependent variable (Y_i) ranges from 0 (signaling that is almost impossible for the respondent to vote that party) to 10 (signaling that the vote for the party is almost certain). It is voluntarily avoided here the expression “Propensity To Vote” (van der Eijk *et al.* 2006) as for our dependent variable. In fact, the operationalization does not allow to think our dependent variable in terms of *utility* in a strict and formally rigorous way. The measurement item in the Italian case is given by the following question:

In Italy there are many parties and coalitions that would like to have your vote in the future. For each of them could you please tell me how likely is that you might vote for it in the future? Could you tell me how likely is that you will vote for each of them on a scale from 0 to 10, where 0 means “not likely at all” and 10 means “very likely”.

Thinking of [Party X], which score fits better how probably will you vote for [Party X]?

The Italian question fits rather well the 1994 Dutch Parliamentary Election Study (van der Eijk 2006; Anker and Oppenhuis 1997) item that, for the present state of knowledge, represents the best measure of party utilities. However, the British measure is provided by a standard feeling thermometer, and therefore it cannot be interpreted in terms of party utility in a strict sense. While on the one hand it is recognized here that this measure cannot be taken as a proxy for party utility

(and this is the main reason why the more general expression “electoral preferences” is preferred here to “party utility” or “propensities to vote”). However, this recognized, it has to be noticed that this measurement problem is likely to be greater in multiparty political systems than in a two-party one. Therefore, given the nature of the British political system, this variable is retained as a measure for electoral preferences.

The other regressors are measured in a more standard way. Respondent electoral choice at the previous national election ($Vote_{i,t-1}$) is measured as a dummy. Party identification is measured through the usual combination of survey question tapping both the directional and the strength component: respondents are thus assigned a value ranging from 0 (not identified with the party in the specific combination) to 3 (strongly identified with that party). Respondents evaluation of party competence is operationalized as suggested by Bellucci (2006). On the one hand, we control for the “cognitive root” of party competence, by looking at respondents’ perceptions around the handling of the economy made by the incumbent party (or, in the Italian case, coalition); secondly, we control the “affective root” of party competence by controlling for the party leaders’ assessment.

One further remark with respect to our control variables concerns the level of analysis (*respondents* \times *parties*). In fact, not all the main predictors are already interpretable at this level. Some of our control variables (e.g. issue proximity, measured as the absolute difference between the respondents’ placement of the self and each of the parties on the left-right scale) have a direct counterpart at this peculiar level, while others do not. For all the variables belonging to the latter class (e.g., age, gender, educational level, social class, church attendance, respondents’ assessment of the country’s economic situation in the last year) we have produced the predicted values regressing our dependent variable Y_i on synthetic indexes of the variables of interest through OLS, in order to produce a linear transformation (at the *respondent* \times *party* level) of previously individual variables (van der Eijk *et al.* 2006).

4.1 Results

In the first place, we focus on the cognitive root of party competence. Table 1 introduces the estimates results when respondents’ are called to evaluate the incumbent economic performance.

Looking at the cognitive root of party competence the evidence for the POH hypothesis seems mixed. While it is likely that the highly significant interaction term in Model (1) is probably due to models’ misspecification problems, the coefficient in

Table 1: Assessing the “Selection and Updating” model - Party competence cognitive root

	Model (1)	Model (2)	Model (3)	Model (4)
Incumbent economic performance	0.64 (14.48)	0.18 (4.67)	0.55 (1.99)	0.33 (9.08)
Retrospective assess. of the economy	0.50 (16.16)	0.42 (15.43)	0.42 (11.21)	0.32 (7.62)
Interaction	0.40 (8.97)	-0.08 (-1.85)	0.15 (0.34)	-0.07 (-2.05)
Generalized issue proximity	-0.60 (-72.16)	-0.45 (-56.59)	-0.49 (-45.37)	-0.32 (-27.82)
Political interest	-	0.44 (5.07)	0.15 (-1.13)	0.61 (5.37)
Party identification	-	1.13 (35.03)	1.20 (21.27)	1.10 (31.27)
$Vote_{i,t-1}$	-	0.97 (15.41)	1.70 (14.86)	0.61 (9.13)
Country control	NO	YES (dummy)	Italy	United Kingdom
R-squared	0.32	0.46	0.42	0.42
N	15059	15055	8212	6843

Notes: Dependent variable is electoral preferences [0-10]. Cell entries reports OLS estimates (t-statistics in parentheses). Controls include also: age, gender, educational level, subjective social class, and frequency of church attendance.

Model 2 is negative, although significant only at a 10% level ($t = -1.85$). This is a rather weak empirical support. However, if we look at within country estimates, we find evidence for our model in the United Kingdom (the β_3 coefficient is negative and significant), while we have to admit that is largely not significant in the Italian case. A reasonable explanation for this evidence is given by the fact that in Italy the assessment of the incumbent economic performance is marginally significant ($t = 1.99$), while it is strongly significant in the British case ($t = 9.08$). In any case, no interaction seems to be at work in Italy.

Table 2 presents instead the empirical results for the affective root of party competence.

Table 2: Assessing the “Selection and Updating” model - Party competence affective root

	Model (1)	Model (2)	Model (3)	Model (4)
Leadership evaluation	0.58 (75.92)	0.53 (73.61)	0.51 (44.68)	0.54 (66.62)
Retrospective assess. of the economy	-0.16 (-3.18)	-0.03 (-0.65)	-0.2 (-2.99)	0.28 (5.09)
Interaction	0.08 (9.01)	0.05 (5.97)	0.08 (7.05)	-0.03 (-2.80)
Generalized issue proximity	-0.35 (-45.58)	-0.23 (-31.79)	-0.27 (-24.78)	-0.15 (-15.56)
Political interest	-	0.17 (2.27)	-0.01 (-0.09)	0.29 (3.22)
Party identification	-	0.70 (25.07)	0.76 (14.81)	0.70 (24.90)
$Vote_{i,t-1}$	-	0.63 (11.73)	1.24 (12.03)	0.35 (6.76)
Country control	NO	YES (dummy)	Italy	United Kingdom
R-squared	0.51	0.61	0.54	0.65
N	14856	14852	8020	6832

Notes: Dependent variable is electoral preferences [0-10]. Cell entries reports OLS estimates (t-statistics in parentheses). Controls include also: age, gender, educational level, subjective social class, and frequency of church attendance.

The affective root of party competence shows a far greater explanatory power than the cognitive one. In this case the interaction term is significant in every specification. However, even in this case the evidence is mixed: in fact, this coefficient is expected also to be negative, while both in specification (1) and (2) it is actually positive. This is fairly counterintuitive: it would suggest a situation in which the representative voter punishes the incumbent *less* when the party competence of the other parties is greater. However, the things become clearer when analyzing the empirical evidence separately for the two countries. In fact, the positive interaction coefficient in Model (2) seems to be driven by the fact that in Italy voters were on average rewarding the incumbent (Berlusconi II and III governments) for its *bad* economic results. Therefore the real puzzle does not concern directly the POH hypothesis, but the same role played by the economic evaluations of the Italian electorate in the 2006 elections. Rather than finding evidence of a disciplinary (sanctioning/rewarding) mechanism of electorate on the incumbent, here it seems more likely that the government is able to discipline the electorate. One perspective for dealing with this puzzle lies probably in the contextual specific features of the Italian premiership. Notice also that, while the Italian case remains puzzling, the selection and updating model finds confirmatory evidence - as observed in Table 1 - for the British case. In fact, for the British 2005 political election the coefficient is negative and significant.

5 Concluding remarks

A complete explanation of the relationships occurring between economic events and political support to governments would represent a crucial accomplishment for political behavior's research as well as for the whole theory of representative governments. While lots of improvements have been reached in our understanding of the contextual factors that constrain the economic voting mechanisms, we still fail to provide a systematic explanation of the individual constraints at work.

The economic voting theory has provided two solid explanations: the first one relies on the retrospective/sanctioning logic, and perceives the representative voter as motivated by politicians' potential moral hazard; the second one implements a prospective/selection logic, and describes an electorate that faces an adverse-selection problem. The integration of the two approaches might provide the basis for a superior solution. The "Selection and Updating" model advanced in this paper, suggest that the representative voter might instead face a trade-off between these two dimensions. Voters have to limit the potential moral hazards made by the incumbent. However, the more they are willing to punish a disappointing economic performance,

the more likely they are to end up with less competent political representatives. The empirical evidence for this proposition remains however mixed: on the one hand, the British case provide support to this kind of explanation, while the Italian case seems not. When the cognitive root of party competence is evaluated, then no significant interaction seems at work in Italy. However, when the affective component is analyzed, it the evidence produced suggest a fairly counterintuitive result whose explanation remains puzzling. Further empirical efforts are needed in order to reject or not to reject the POH hypothesis.

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