Economic Conditions and Electoral Outcomes: The United States and Western Europe

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Preface

The papers in this volume were originally presented at the Shambaugh Conference on Economic Conditions and Electoral Outcomes, sponsored by the Department of Political Science of the University of Iowa and held there in March, 1984. Michael S. Lewis-Beck was the principal organizer of the conference, and Heinz Eulau served as the editor of the papers in *Political Behavior,* a journal published by Agathon Press, where they subsequently appeared. The conference was made possible by funds placed at the disposal of the Iowa Department of Political Science in memory of Professor Benjamin F. Shambaugh, who was head of the department from 1900 to 1940, and who served as president of the American Political Science Association. In recognition of the value of the Shambaugh fund for furthering scholarly exchange, any royalties which may accrue from this volume will be donated to the fund.

The Shambaugh memorial fund has permitted the Department of Political Science at Iowa to sponsor a series of lectures and conferences. Shambaugh lectures have been given by such distinguished political scientists as Karl Deutsch, Charles S. Hyneman, Dayton D. McKean, Arnold Rogow, Sheldon Wolin, and Herman Finer. Since the adoption of the conference format, Shambaugh research conferences producing significant publications have been held on the following subjects: frontiers of judicial research (1967), comparative legislative behavior research (1969), legislatures in developing countries (1971), teaching political science (1974), the role of European parliaments in managing social conflict (1977), mathematics in political science instruction (1977), the biological bases of political behavior (1980), the place of political theory in political science (1981), rural development in less-developed countries (1981), political science at the University of Iowa (1982), and, most recently, the impact of economic conditions on electoral outcomes (1984).

There is some risk in bringing together, in a single volume, a set of papers that more resembles a potpourri than a symphony; but the risk is not any greater than that involved in assembling a variety of scholars in a conference. As any veteran conference participant knows, no body of instructions to paper givers, no matter how well specified, is ever sufficient to orchestrate the multiplicity of voices that are heard, precisely because it is the purpose of a conference to allow each speaker to be heard on his or her own terms. In fact, the charm of a good scholarly conference is when it manages to steer a middle course between a Gulag Archipelago, where each person may think what he or she wishes but may not say it, and a Tower of Babel, in which each person can say what he or she wishes in some mother tongue but nobody does any thinking. On the whole, we believe that the papers here assembled are more complementary than conflictual, more concordant than discordant. To the reader who still feels that a volume like this is necessarily a grab-bag of assorted candies, we can only say that we like both the grab-bag and the candies, and that we hope most readers will do likewise.

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INTRODUCTION

Economic Conditions and Electoral Behavior in Transnational Perspective

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Does economics influence elections? How does such influence work? Under what conditions is it more or less likely to occur? These are the basic questions addressed in the chapters of this volume. They appear to be simple questions, but answering them is difficult. And they may appear to be trivial questions to those who contend that elections in the western democracies are at best placebos that disguise the "real" dynamics of power in societies still mostly characterized by the capitalist mode of production, even if the economy is directed by government. This is an argument we do not propose to address. We do believe that free, popular elections matter, and that they make a difference precisely because, at periodic intervals, they set the limits or constraints within which capitalist as well as anticapitalist elites pursue their economic and political goals. To oppose the voice of the people to the people's manipulation by elites, it seems to us, creates an unnecessary dualism. This dualism is not useful because it cannot come to grips with the question of how and why popular electorates respond as they do to more or less elite-managed economies, and how and why elites in turn "take account of" or are "responsive to" whatever messages they may receive from the electorate.

In this brief introduction, we propose to do two things. First, we sketch the state of knowledge about the relationship between economic conditions and electoral behavior up to about early 1984 when the papers brought together here were first prepared; and we identify some problems at the frontiers of research that may have received illumination in these papers.

The papers here and other research on the interpenetration of economics and politics are exercises in both theory and method addressed to specialists in the field of electoral research. We hope that scholars in the broader field of comparative politics will find them of interest and possible use. We shall therefore raise, second, some questions about the continuity of cross-national and trans-national comparative research, if only to persuade those who cling to an essentially idiographic approach in comparative politics that there can surely be a "middle road" between systematic-nomothetic and descriptive-idiographic studies in the field of comparative politics.

I.

The first question, necessarily, is whether there actually exists a relationship between economic conditions and vote choice in Western democracies. An immediate response, drawing on common sense, is likely and quickly to be, "yes, obviously." A glance at recent election results from around the world—Britain in 1979, France in 1981, Germany and Italy in 1983, and the United States in 1984—helps to convince one of the correctness of this intuition, that the electorate punishes governments for poor economic performance. This conventional wisdom was initially confirmed in two pioneering studies by Goodhart and Bhansali (1970) for Britain, and by Kramer (1971) for the United States. In the British investigation, the finding was that the level of unemployment and the rate of inflation, significantly influenced the popularity of the government as measured in national public opinion polls (Goodhart and Bhansali, 1970, p. 61). In the American study, the conclusion was that improved macroeconomic conditions, in particular rising real income, generated important vote increases for the president's party in congressional elections (Kramer, 1971, pp. 140–41). However, these positive and plausible results were soon challenged by research indicating that no relationship existed between economic circumstances and electoral outcomes.

In regard to Britain, the work of Goodhart and Bhansali was questioned by Frey and Garbers (1971) and then by Miller and Mackie (1973). Indeed, Frey and Garbers (1971, p. 320) flatly concluded that "economic variables do not have any permanent effect on the popularity lead of the government in Britain." In the United States, a study by Stigler (1973), carefully crafted and written by an economist, was especially important. Stigler took direct aim at Kramer, arguing forcefully, on grounds of theory and data, that voters did not react to changing economic conditions. Following suit, Stimson (1976) claimed that the American president's popularity was not determined by the state of the economy but rather simply followed regular cycles over time. These sophisticated and widely influential papers were the occasion for the subsequent decade's work, at least in these two countries, laying heavy emphasis on refutation of the null hypothesis. Looking at the fresh batch of studies in this volume but also elsewhere, the reader holding the conventional view should find some comfort because they all agree that the economy affects voting behavior, regardless of the Western democracy under investigation. This step forward along the path of cumulative research, while perhaps small, does allow us to move on to a set of questions with less obvious answers.

How does the economic influence work? The hypothesis dominating the literature has it that economically dissatisfied citizens tend to vote against the incumbent party (or parties). Most of the research, from either aggregate level time series or individual level survey data, is compatible with this generalization. However, for more specific hypothesis on the linking mechanisms, the time series work is not much help. Irrespective of country, there is no agreement across the time series studies on which economic variables – income, unemployment, inflation – are operating. Further, agreement is lacking as to how these variables should be measured, e.g., levels versus rates. And, these studies differ over the lag structure of the responses, e.g., $t-1$, $t-2$, or a distributed lag. Also, there is no consensus on the period of aggregation – monthly, quarterly, yearly.

The French case illustrates well these limitations of the aggregate time series analyses. In studying the popularity of the prime minister (quarterly data, 1961–1977), Lafay (1977) found that the statistically significant determinants were the (logged) real-salaries index lagged one quarter, the (logged) change in prices from quarter to quarter, and the (logged) number of unsatisfied employment requests lagged four quarters. By way of contrast, Lewis-Beck (1980), analyzing monthly data from 1960 to 1978, concluded that the inflation rate and the unemployment level, both measured at a lag of two months, significantly influenced the popularity of the prime minister and the president. With yet another version, Hibbs and Vasilatos (1981), looking at quarterly data from 1969 to 1978, judged economic impact on presidential popularity to derive just from the real personal disposable income growth rate. The discordant findings across these studies find parallels in the aggregate time series work on other nations. Finally, since these time series efforts utilize observations from nations rather than from individuals, they alone cannot tell us whether voters are responding to economics at all. Thus, to avoid the ecological fallacy, we must turn to data on individuals. In this endeavor, survey research has been most frequently relied upon.

Although the picture is changing, the great bulk of the survey work is on the American case (really begun by Fiorina, 1978; two European examples are Lewis-Beck, 1983; Rattinger, 1981). In this literature, largely through the influence of Kinder and Kiewiet (1979), the economic variables have come to be divided into two categories: personal (pocketbook) and collective (sociotropic). The personal items tap how respondents evaluate their own economic circumstances, e.g., the well-known CPS-SRC question, “Would you say that you (and your family) are better off or worse off financially than you were a year ago, or about the same?’’ The collective items tap how respondents evaluate the economic circumstances of the nation, e.g., “Would you say that at the present time business conditions are better or worse than they were a year ago, or about the same?” With regard to findings, the consensus is that collective economic evaluations do influence the vote. For example, citizens who see the nation in an economic downturn are more likely to declare a vote against the president’s party. There is little consensus, though, on the effects of personal economic evaluations. Several studies have reported that perceived individual financial hardship translates only faintly, if at all, into a vote shift. Still, many researchers are reluctant to abandon the pocketbook voter hypothesis, which seems to make such good sense. This dilemma (a good hypothesis facing resistant data) has led to more consideration of measurement issues, e.g., how are personal economic circumstances best assessed? Also, it has prompted a more thoughtful specification of the conditions under which the pocketbook hypothesis might be confirmed.

Clearly, economic hard times can cause a voter to cast a ballot against the government. Nevertheless, this connection is far from automatic. Under what conditions is it more likely to occur? The most obvious relevant condition is the type of election. For instance, in American presidential elections, the association between economics and the vote is decidedly greater than in legislative elections. (We would expect this to be true as well in France, although this proposition has never been tested). The U.S. president, because of the powers and prestige of his office, appears more likely to be held responsible for economic events, and punished or blamed accordingly. A general implication is that, within any election, the attribution of economic responsibility can strengthen or dampen economic voting. Indeed, when such an interaction variable is taken into account, the pocketbook voter hypothesis is unambiguously sustained (see Feldman, 1982; Kinder and Mebane, **1983).** That is to say, when citizens hold government to be responsible for their personal economic hardship, they act in their self-interest by voting against the incumbent. Thus, attribution of responsibility emerges as a key condition in joining economic grievance to political preference. Further, this variable is involved in the explanation of some transnational differences in economic voting.

Economic voting is a general phenomenon in Western democracies, as this research indicates. Still, we can count on certain differences across nations, simply because of institutional variations. An important one is the degree of governmental responsibility for economic management. While all the nations under study are essentially capitalist, they exhibit considerable variation in government direction of economic activity, with Britain or Norway at one end of the continuum and the United States at the other. In the nations with more government economic involvement, one could anticipate a stronger association between economics and the vote, since their citizens would be more likely to attribute economic responsibility to government. The scanty amount of microlevel analysis available suggests this is the case. For example, the simple correlations between economic conditions and vote choice are generally stronger in French than in American surveys (Lewis-Beck, 1983).

This discussion of the relative strength of the relationship brings us to the next issue. Ignoring transnational differences, how important, generally speaking, are economic conditions in determining the vote? The aggregate time series regression models from the various countries, all with very high R-squared values, imply they are extremely important. However, one problem with these models is that they are invariably misspecified, which gives an upward bias to the economic effects. They usually contain few, if any, independent variables that are noneconomic. The individual level survey data permit better specified voting models. In particular, the surveys make it possible to control on partisan or ideological identification. When these and other control variables are applied in single-equation additive models, what can we conclude about economic influences on the vote? Basically, collective economic variables regularly exhibit statistical significance at conventional levels, while personal economic variables may or may not.

Beyond this broad conclusion, it is difficult to generalize. Little systematic attention has been paid to the importance, for the individual voter, of economic variables relative to other independent variables. However, a glance at the coefficients reported in the research literature reveals that economic issues do not exercise the impact of long-term forces such as partisan or ideological identification. Somewhat more attention has been paid to the importance, for the individual voter, of economic variables relative to other independent variables. However, a glance at the coefficients reported in the research literature reveals that economic issues do not exercise the impact of long-term forces such as partisan or ideological identification. Somewhat more attention has been given to the importance, for the national election outcome, of individual level economic votes. For instance, Kiewiet (1983, pp. 118–24) indicates, on the basis of a simulation from his probit estimates, that bad economic times could cost an incumbent American presidential candidate several percentage points in the total vote, easily enough to affect the outcome of a close race.

The foregoing outline of what we know about economic voting in Western democracies receives elaboration in these papers. They also enlighten us in areas about which little is known. These areas of comparative ignorance include the following: (1) the transnational differences in economic voting; (2) the individual mechanics linking economics and voting; (3) the importance of economic variables relative to other independent variables operating on the voter; (4) the proper place of time series and survey approaches. Productive investigation in each of these areas requires a different analytic emphasis; respectively, hypothesis formation, data gathering, causal modeling, and forecasting. Below, we look at unresolved questions within each area, and offer a strategy for their resolution.

Almost nothing is known about transnational differences in economic voting. Even hypotheses are hard to come by. Here are some possibilities for exploration:

1. The greater the country's dependency on the international economy, the less economic voting.
2. The more the government is actually involved in directing the national economy, the more economic voting.
3. The more the culture emphasizes economic individualism, the less pocketbook voting.
4. In multiparty systems, economic voting may be based on party policies as well as incumbency status. (The implication is that the dependent variable of vote choice could be usefully treated as a dimension on a left-right continuum as well as an incumbency-opposition dichotomy.)
5. As the number of incumbent parties increases, economic voting for the opposition decreases (because economic dissatisfaction might be expressed by switching to another party within the incumbent coalition).

The second area needing more work concerns the specifics of the links between economic conditions and the vote decision. A number of valuable hypotheses have already been formulated. What is scarce are the survey data, especially from Western Europe, to test them. The issues below will be brought closer to resolution after more data gathering (Lewis-Beck is currently exploring some of these questions through the analysis of American and Western European survey data):

1. Which of the economic variables – income, inflation, unemployment – have the most impact?
2. Are economic evaluations prospective or retrospective?
3. Are economic evaluations cognitive or affective?
4. What is the voter's economic memory?

5. Do voters take the economic circumstances of others important to them, e.g., fellow workers or neighbors, into account?
6. Under what conditions does the voter assign economic responsibility to elected officials?

The next area requiring more attention is assessment of the relative importance of economic variables in determining the vote. It is necessary to move from the emphasis on statistical significance in simple single-equation models to the estimation of effects in properly specified multiequation voting models. (Generally, simultaneous-equation models are becoming plentiful for the United States; Fiorina, **1981,** pp. **176–90;** Jackson, **1975;** Markus and Converse, **1979;** Page and Jones, **1979).** In this way, we begin to evaluate the importance of economics compared to long-term forces such as partisan or ideological identification, and to short-term noneconomic issues. (On the anchoring role of ideological identification in Western Europe, see Inglehart and Klingemann, **1976;** Lewis-Beck, **1983, 1984).** This evaluation will help define the ultimate standing of economic voting in the literature on electoral politics. To the extent that it represents something more fundamental than another set of transitory issues, its importance is heightened.

The last area for resolution is the persistent gap between the time series and the survey approaches. Of the many investigators of economic voting, few have practiced both. Further, the isolated efforts to reconcile findings from the two levels have been unsuccessful. In our view, if the research focus is on how economic conditions influence the vote choice, then one should study individuals (through cross-sectional surveys, panel surveys, even experiments). What place is left to time series analysis? Forecasting. **As** the individual level survey analyses have now demonstrated, the relationship observed in the aggregated time series models is not entirely the product of an ecological fallacy. However, the aggregate level data are compatible with a very large number of theories about the individual vote decision. Therefore, time series analysts must necessarily be guided by the issue of which model forecasts election outcomes more accurately. This forecasting emphasis draws attention to specific features of a model:

1. The time period of the lags of the independent variables. (True forecasts are possible only if measures on the independent variables are available in advance of the election.)
2. The parsimonious inclusion of independent variables. (Given the limited number of time series observations available, independent variables must be entered judiciously, in order not to exhaust the degrees of freedom.)
3. The goodness-of-fit. (Given the forecasting goal, unusual attention

ought to be paid to measures like the R-squared and the standard error of estimate of the dependent variables.)

Recent work on aggregate time series forecasting of American presidential and congressional election outcomes suggests this is a fruitful strategy, one which could be applied in the countries under study (Lewis-Beck and Rice, 1984a,b). These models generated fairly successful forecasts of the 1984 races (Lewis-Beck, 1985a). Further, a similar modeling effort promises interesting results for the French legislative elections of 1986 (Lewis-Beck, 1985b). Hence, time series approaches, which began the whole enterprise, would seem to have a secure, albeit restricted, position in the study of economic voting.

II.

The studies reported in this volume are "single country" studies involving an implicit rather than explicit mode of comparison. From a broad methodological perspective, therefore, they would appear to be something of a throwback to the original genre of "comparative" studies that relied on inference from simple juxtaposition of two or more units (countries, states, cities, etc.) That this genre as sole mode of comparison is of highly doubtful validity has been asserted for more than twenty years now by students relying primarily on individual-level data (Eulau, 1962; Verba, 1971), and by those relying primarily on aggregate data (Lipset, 1959; Deutsch, 1961) who proposed and carried out cross-unit (cross-national, cross-state, cross-city, etc.) statistical research. This position, in turn, has not gone unchallenged and recently called forth, in a forceful yet accommodating manner, a persuasive defense by one of its methodologically most sophisticated practitioners. As Jackman (1985) points out, cross-unit and especially cross-national research faces all kinds of problems — theoretical, methodological and empirical; but these problems are not insurmountable if appropriate and adequate assumptions are made and, in particular, if it is conceded that analyses in the comparative-statistical genre require auxiliary theoretical information as well as ancillary historical and/or contextual knowledge in order to become interpretable for the purpose of comparative inference.

What, then, gives scientific warrant to the single-country analyses represented in this volume? If, as Jackman (1985, p. 179) concludes, the cross-unit (and especially the cross-national) statistical method "is only one of several methods in comparative politics, and for some substantive problems . . . is not necessarily an appropriate one," where do these trans-national "country studies" of the relationship between economic conditions and electoral behavior "fit in?" There are a number of suggestions that can be made in their defense, if "defense" is necessary.

In the first place, the empirical domain here covered is sufficiently limited so that the studies are almost invariably guided by the same or similar—at times quite explicit, at times more implicit—theoretical propositions. And this is made possible by the fact that the dependent variable, vote choice, is conceptually less ambiguous and operationally less unstable than the dependent variables one encounters in most other empirical domains of comparative politics. In other words, though measurements may differ somewhat from country to country, they are "direct" so that what is being measured has pretty much the same meaning across the several countries. Rather than having to move from concept to measurement (especially from often vague "umbrella concepts" like "political development," etc.), the voting studies can move from measurement to concept; and the concepts explicitly or implicitly defined and used (like unemployment, inflation, income, or vote) provide a common theoretical frame of reference that is *transnationally* interpretable. With conceptual equivalence relatively and reasonably assured, it would seem that, some operational differences notwithstanding, comparative inferences can be legitimately made. What we can call transnational studies, therefore, differ from the simply juxtaposed national studies in permitting more genuine comparison, even though they may not approximate as much as we would like the requirements of cross-national research.

Second, critics of the early cross-national statistical studies may well have been correct in charging that many of the operational measures used were sometimes so disparate (even if conceptual equivalence was asserted) or unreliable (especially as surrogate variables) that this mode of comparison, if not false, was premature. Indeed, who would trust the educational or demographic statistics reported from, say, countries like Afghanistan or Zaire as against those reported from Austria or Sweden, and their use in the same regression equation? In general, the data reported from the Western democracies are probably as reliable as they can be and commensurate, but as the studies reported in this volume indicate, there still remain considerable differences as to both the original units of aggregation (possibly cities, counties, provinces, census areas, etc.) and the time periods over which aggregation occurs (months, quarters, years, etc.). Cross-national research, based on the nation as the unit of comparison, can often not take account or does not take account of the mechanisms or processes of aggregation that undoubtedly shape the bottom figures. National statistics may thus disguise considerable within-unit variations and variances that are economically or politically significant, and that probably should be taken into account. The transnational studies reported here show that there are indeed differences in the reporting of the basic data and in their statistical measurement that affect both the interpretation of the data and whatever transnational inferences can be made. Put somewhat differently, there are clearly within-country variations that should be specified and, ultimately, be entered into whatever equations are estimated in both transnational and cross-national research. In this respect, then, the transnational comparisons as those made possible by the studies included in this book are both necessary and desirable complements or supplements of cross-national research.

Something should be said in this connection about transnational survey research. **As** we mentioned earlier, many of the problems involved in the relationship between economic conditions, voting behavior and electoral outcomes may well require for solution recourse to individual-level data obtained through polling of the electorate. Unfortunately, the survey questions asked by national polling organizations in different countries are often not commensurate. (Even within the United States, for instance, it is the exception rather than the rule when state polling organizations ask exactly the same questions.) But this is only the beginning of the difficulties in using survey data in cross-national or trans-national comparative analysis. In general, what studies have been done (the classical study is Almond and Verba, **1963)** have compared the political behavior of voters *within* nations rather than the voting behavior of electorates *between* nations. In other words, at the national level, at least, survey data have not been used to close what one of us called the "micro-macro gap" (Eulau, **1971, 1977).**

Last, but not least, there has been the charge that cross-national statistical studies, even if theoretically sophisticated, are insufficiently "contextual." What this translates into is, in effect, the charge that scholars doing cross-national research, and especially those whose work circles the globe's five major continents and their increasingly numerous and diverse countries, do not know what they are talking about. Again, there is an element of truth in this charge, but only an element. It is certainly not warranted to conclude from this charge that only single-country or perhaps a handful of "comparable" countries studies are scientifically viable. Whatever merits such studies may have, the desirability of large-scale cross-national research remains. In some respects, therefore, the "single-country studies" included in this volume constitute something of a "middle road." On the one hand, they can be seen as antecedent or supplemental to cross-national investigations in that they are enlightened by relatively similar measurements and theoretical points of departure. On the other hand, they are enlightened by historical-contextual knowledge that is in the possession of the investigators who are either scholars resident in the countries about which they write or non-resident ("foreign") specialists on a given country. Needless to say, the format of research papers, limited as they are in available space, does not permit these investigators to tell all they know about the historical-contextual detail behind or implicit in their analyses, though more of this enters their work than enters the work of cross-national researchers dealing with many countries. If it is correct that comparative-statistical analysis cannot do without ancillary or supportive information, it may be said that one might have more “trust” in transnational than cross-national studies, at least at this stage of research development.

Of course, this does not let either transnational or cross-national studies off the historical-contextual hook. The task ahead for both types of study is, obviously, to treat historical-developmental periods as well as contextual-environmental conditions as variables rather than constants. In this regard, perhaps, the study of comparative politics will come full circle, though at a higher plane of the research spiral: clearly, there is room for historical and contextual typologies as one finds them in the older and newer versions of what was once called “comparative government” and later “comparative politics.” But there would be a difference: the older typologies (like “democracies” vs. “autocracies,” or “modern” vs. “traditional” societies, etc.), even if not altogether empirically empty, came off a scholar’s intuitive cuff; any new typologies of “whole” units would have to take account of the large number of theory-driven and data-supported researches that, like those reported in this volume, have been conducted in our time. There will probably always be in the social sciences a need for such comprehensive approaches to comparative analysis. The problem remains to enter indicators of historical and contextual detail into the cross-unit statistical equations; to do so without undue reliance on dummy variables whose values escape meaningful interpretation; and to do so regardless of whether the research is conducted within or between different units of analysis. And one should always keep in mind that today’s research is not the end of the line in scientific endeavor but at best a prolegomenon to the research of tomorrow.

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CHAPTER 1

Public Attitudes Toward Economic Conditions and Their Impact on Government Behavior

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For almost 15 years now public attitudes toward economic conditions and their impact on government behavior have been analyzed by economists and political scientists. Most of the studies deal with the behavior of two actors, the voters and the government, in representative democracies.[1] In these studies, it is assumed that voters support the party (governing or in opposition) that meets most closely their own preferences with its political actions and program, and that government tries to win the next election with the final purpose of putting its own selfish (ideological) goals into practice.

The government's behavior can be analyzed by assuming that it maximizes its own utility subject to various constraints.[2] The government's utility consists in the possibility of carrying out its ideological program. The most important constraint the government faces is a political one. A government

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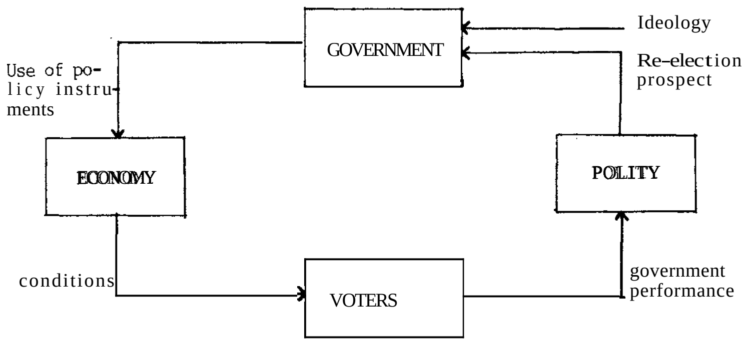
may stay in power ***only*** if it is reelected. There are also important economic constraints that determine how policy instruments affect the economy, as well as the budget and legal constraints. Government is also restricted in its activity by administrative constraints, i.e., by the public administration, which resists structural changes in expenditure programs as much as possible and has an interest in continually increasing state activities.

Hence, a model of a politico-economic system emphasizes the interdependence of the economy and policy by taking into account that the electorate's vote decision depends (among other ***political*** issues) on economic conditions, and that the government can influence its reelection chance by changing the state of the economy. These relationships are graphed in Figure 1.

FIG. 1. Politico-economic system with two actors: voters and government.



This figure shows how economic conditions (as represented by well-known macroeconomic indicators such as the rate of unemployment, the rate of inflation, and the rate of growth of real income) influence the voters' evaluation of government performance: the worse (better) the economic conditions are, the less (more) satisfied the voters are with the government, assuming that the voters held government at least partly responsible for the state of the economy.

In the political sphere, the institutional characteristics of the particular politico-economic system determine how much the government depends on the voters' wishes. Figure 1 shows, furthermore, that the government uses its policy instruments on the expenditure and revenue side in considering both its reelection prospects and its ideological goals. The lower loop shown in Figure 1, which leads from the economy to the polity, describing the voters' behavior, is termed ***evaluationfunction;*** the upper loop, which leads from the polity back to the economy, describing the government's behavior, is termed ***policy function.***

The main purpose of this survey is to give a comprehensive overview on the current state of research on voters' behavior and provide some short remarks about the results of studies in which disaggregated voting behavior is analyzed. Next, this survey deals with the government's reaction in representative democracies. Furthermore, the behavior of other actors (such as the central bank and interest groups) are analyzed in this framework. Finally, in the last section, some concluding remarks are made.

VOTERS BEHAVIOR

Most studies in the politico-economic context deal solely with voters' behavior concerning the evaluation of the government (and in some also the opposition's performance at a general election or in polls).' The main emphasis is on the questions of what determines the election decision of a voter and what are the main factors that are used in a voter's decision.

Voters participating in general elections evaluate the government by its past performance over the recent legislative period or even longer. The opposition parties are evaluated by looking at their party platforms and their statements over the legislative period. To undertake the evaluation of government performance, voters consider those economic and political developments for which they think government is (at least partly) responsible. As this information process is costly for voters, they will use those economic and political factors that they already know or for which they can easily get information. Economic indicators that fulfill these conditions are the rate of inflation, the rate of unemployment, the growth rate of disposable income, and the burden of taxation and government goods and services (such as transfer payments). Political factors are interior and exterior political events (such as foreign crises and domestic affairs, e.g., political scandals of politicians). On the economic side, it is rather easy to investigate empirically whether these variables have an influence on voters' decisions, but for the political factors it is difficult to find appropriate variables capturing these influences.4

The empirical investigation of the evaluation function began almost simultaneously in the early 1970s with the econometric estimation of popularity functions (for the United States, see Mueller, 1970, and for Great Britain, see Goodhart and Bhansali, 1970) and the econometric estimation of election functions (for the United States, see Kramer, 1971). The main emphasis in these studies is on the amount of influence exerted by a change in the economic situation on the popularity of American presidents (and of the British governing party) or on the outcome of congressional and presidential elections in the United States.

The results of vote functions are discussed first; from these the more or less direct influence of economic and political factors on the election outcome is measured. For the United States, where we have four studies of presidential elections over roughly the same time period, the empirical results are quite different: Kramer **(1971)** concluded that inflation and real growth of income have a significant impact. Fair **(1978)** found that the real per capita income or the rate of unemployment (if only one is included in the estimation question) was a significant influence; Niskanen **(1979)** showed that the per capita income and the rate of federal per capita tax had a significant impact. Finally, Kirchgaessner **(1980)** used the squared rate of inflation to explain the vote share of American presidents and found no other economic variable that was significant. One reason for these quite different results may be the long time period over which the empirical studies were done, with the consequence that structural changes (like the world economic crises of **1929–1933)** may be due to the instability in the estimation results.

For Denmark and Norway, Madsen **(1980)** found that the inflation rate was the ***only*** significant influence on the vote share for the government party(ies). For Sweden, he showed that the rate of unemployment or the growth rate of real income had a significant impact. In the case of France alone, Rosa **(1980)** concluded, all three economic variables had a significant impact on the vote share of the left opposition parties, with the strongest influence being the inflation rate. No statistically significant influence of the economic situation on the election outcome was demonstrated by Whitely **(1980)** for Great Britain and by Inoguchi **(1980)** for Japan. **A** quantitatively strong and highly significant influence of the economic situation on the election outcome of the vote share of parties in the four Reichstag elections of the Weimar Republic between **1930** and **1933** was found by Frey and Weck **(1983).** They concluded from their estimation results that if unemployment had not risen from **14%** in July **1930** to **52%** of employed workers in January **1933,** the Nazi party would have received **24%** instead of **44%** of the vote in March **1933.**

A comparison of the results among all the countries may not be very useful, since the time period investigated and the type of specification and the variables included in the estimation are too different in the various studies. However, the results in the various countries show that the economic situation has a predictable influence on the election outcome, but how strong this influence is and which economic factors are crucial are difficult to tell.5

Because of these difficulties with vote functions, most authors concentrate their studies on the question, Which political and economic factors have an influence on the ***government'spopularity*** and, if so, how strong and