Macroeconomic performance, macr

microeconomic policy, and elector

al politics in industrial democracies

DOUGLAS A. HIBBS, JR.

Professor of Government, Harvard University

"All political history shows that the standing of the Government and its ability to hold the confidence of the electorate at a General Election depend on the success of its economic policy."

Prime Minister Harold Wilson, March 1968

"The wage level (price level) in the modern society is indeterminate because in the final analysis the monetary authorities must—for political reasons—provide a money supply adequate to ratify any given level of money wages, no matter how it was reached, in order to avoid excessive unemployment."

Richard Cooper, 1976

Macroeconomics and electoral politics is a broad topic, and here I shall discuss only a relatively narrow slice of the field. Specifically I shall summarize my recent work on the response of governments' mass political support to macroeconomic performance in the liberal capitalist democracies, and also discuss the implications of this work for electorally motivated macroeconomic policy cycles.

The paper proceeds as follows. Section 1 outlines the broad theoretical framework underlying my research. Section 2 presents some public opinion data on the relative salience of macroeconomic issues to the mass publics of the industrial democracies during the postwar era. Section 3 describes a model for the response of mass political support to economic outcomes, and reports some illustrative empirical results for a selection of industrial democracies. Finally, in Section 4, the concluding section, I suggest how constrained optimization techniques can be used to investigate empirically the impact of electoral pressures on macroeconomic policy behavior in industrial democracies.
1. An interdisciplinary framework for the analysis of the macropolitical economy of industrial democracies

The theoretical framework underlying my empirical work emphasizes that macroeconomic policies affecting economic outcomes are responsive to and constrained by the electorate’s reactions to salient economic problems. In other words, in a democratic society macroeconomic policies and outcomes reflect the intersection of both economic and political forces. This interdependence is usefully conceived in terms of a political–economic system of the demand for and supply of economic outcomes. The principal features of this framework are illustrated in Figure 1.

As Figure 1 suggests, mass political support for the incumbent political party and chief executive—which is measured by votes on election day and poll ratings during interelection periods—depends, among other things, on current and past (and, perhaps, anticipated future) economic performance. The response of mass political support to economic conditions reveals information about the electorate's economic priorities and relative preferences (as between, say, higher inflation and higher unemployment) and constitutes the voters' demand for economic outcomes. Because objective (distributional) consequences and public perceptions of macroeconomic outcomes vary systematically across electoral groups (for example, working class voters and partisans of "left" parties typically are relatively more sensitive to unemployment and less sensitive to inflation than white-collar voters and partisans of "right" parties), economic preferences and demands are not homogeneous across voters.

Political administrations attempt to maintain a comfortable level of mass political support, and also pursue ideological and distributional goals that are reflected in the distinctive preferences of their core electoral constituencies. The economic policy reactions of political administrations to voters' economic priorities (demands) determine the electorally induced supply of economic outcomes. The impact of political and electoral forces on the formulation and implementation of macroeconomic policies, of course, is subject to institutional arrangements which include such factors as the degree of autonomy of monetary authorities from elected political officials, executive–legislative relations, federalism, and so on. Furthermore, the impact of the conventional policy instruments—notably the supply of money and credit, and government expenditure and taxation—on macroeconomic conditions is constrained by the structure of economic relations (for example, short-run Phillips curves, the institutional setting of wage bargaining) and by international economic influences (for example, OPEC oil supply shocks, the exchange rate regime). Politics and policy, therefore, influence importantly, but do not shape completely, macroeconomic outcomes.

As I indicated above, the macroeconomic policies pursued by political authorities in response to voters' economic priorities or demands, subject to
Figure 1. A simplified political-economic system of the demand for and supply of macroeconomic outcomes
relevant economic and institutional constraints, define the intended electorally induced supply of economic outcomes. Confronted with shifts in market demand, shocks in market supply, trade union cost push, and other inflationary pressures, policy authorities are continually forced to make short-run choices between (i) accommodating such pressures by expanding government expenditures and the supply of money and credit, thereby relinquishing control over the price level in order to preserve effective demand and employment, and (ii) leaning against such pressures, by tightening spending and the money supply, thereby reducing the effective demand and employment but putting downward pressure on the inflation rate. These choices have important macroeconomic and distributional consequences profoundly affecting the relative and absolute economic well-being of social groups, as well as important political consequences affecting the electoral well-being of incumbent parties and chief executives.

Accounting for variations over time, across political administrations, and across political systems in fiscal and monetary “discipline,” that is, in the inclination of policy makers to supply inflation, unemployment, and associated distributional outcomes, poses important questions for analyses of the contemporary political economies of industrial democracies. The next two sections of this paper speak to the “demand” side of this issue by investigating comparatively the response of mass political support for governments to fluctuations in macroeconomic performance. The final section outlines procedures for investigating the “supply” side of this issue in the context of my ongoing research on electorally and distributionally motivated macroeconomic policy cycles.

2. The salience of the economy as a political issue

Not since the Great Depression of the 1930s and the immediate post-World War II reversion scare have economic issues occupied a more salient place on the public agendas of the industrial democracies. This observation, no doubt obvious to even the most casual observer of the political-economic scene in the West, is amply confirmed by public opinion surveys of the electorates in a wide range of industrial democracies.

For example, time-series opinion survey data in Figure 2a from Britain’s Gallup poll on “the most important problem facing the country today” show that the economy has loomed large among the British public’s concerns since the early 1960s, and virtually has dominated public attention in that country for more than ten years. Data from the United States Gallup poll in Figure 2b indicate that once the American withdrawal from Vietnam was completed, the economy outstripped all other issues as a source of sustained public concern in this nation as well. The Allensbach survey data for West Germany in Figure 2c exhibit a similar pattern. By the early
1970s international issues (reunification of the two Germanys, Berlin, and Cold War tensions) receded into the background and the economy became the most salient public issue. The data for France in Figure 2(d) show that once the Algerian question was finally resolved in 1962, public concern about the economy increased sharply. By the late 1960s, as the long postwar economic expansion was coming to an end, about four out of every ten French voters considered an economic issue to be "the most important problem" facing the country. Following the OPEC supply shock of 1973, the fraction rose to seven out of ten and higher. "Eurobarometer" surveys undertaken every six months since July 1974 by the Commission of the European Communities tell the same story for other Western industrial democracies: economic performance, on a consistent basis, has been the most important contemporary political issue.

The economy is of course not the only factor that influences a government's political support in the polls or actual voting outcomes. The Watergate events during the Nixon administration, the crises surrounding the Soviet invasion of Afghanistan and the seizure of American hostages in Tehran during the Carter administration, and the revival of support for

Figure 2a. Aggregate responses to the question "What is the most important problem facing this country today?"—United Kingdom, 1950–1980

*Approximate wording.

Source: Coded from Gallup Opinion Poll data by the author.
Figure 2b. Aggregate responses to the question "What is the most important problem facing this country today?"—United States, 1939–1980


Figure 2c. Aggregate responses to the question "What is the most important problem which we ought to solve in the Federal Republic today?"—West Germany, 1963–1977

Mrs. Thatcher and the Conservatives following the Argentine seizure of the Falklands illustrate how public attention can be diverted from macroeconomic issues. Yet there is little doubt that in a world of supply shocks and continuing macroeconomic instability, economic performance is likely to continue to have great electoral impact. Indeed, this has been convincingly demonstrated by empirical work showing that the economy was decisive in, for example, the center-right's victory over the Social Democrats in Sweden in 1976, the Conservatives' victory over Labour in Britain in 1979, the victory of Reagan and the Republicans over Carter and the Democrats in the United States in 1980, and Mitterand's victory over Giscard d'Estaing in France in 1981.4

I turn now to a discussion of how the political effects of economic performance (as well as noneconomic events) in the industrial democracies can be systematically investigated within a well-defined model of political evaluation.
3. Modeling mass political support and electoral outcomes

In order to analyze comparatively the "demand" side of the political-economic system sketched briefly in Section 1, I have assembled quarterly time-series data on popular support for incumbent political parties or chief executives along with quarterly time-series data on unemployment, inflation, per capita personal disposable income, and other relevant economic and noneconomic variables for France, Great Britain, West Germany, Sweden, and the United States. The public's relative aversion to, or "demand" for, various outcomes is then inferred from the coefficients of econometric models used to estimate the response of mass political support to movements in economic (and noneconomic) conditions.

Empirical results reported in my published papers are based on quarterly observations from the late 1950s or early 1960s through 1978. The variables used to measure political support in each country were:

**United States:** The percentage of the public responding "approve" to the Gallup poll question, "Do you approve or disapprove of the way (the incumbent) is handling his job as President?"

**France:** The percentage of the public responding "satisfied" when asked the question, "Are you satisfied or dissatisfied with (the incumbent) as President of the Republic?"

**Great Britain:** The percentage of the public supporting the principal incumbent party (Labour or Conservative) when asked the question, "If there were a General Election tomorrow, which party would you support?"

**West Germany:** The percentage of the public supporting the principal incumbent party ( spd or cdU/csu) when asked the question, "If there were an election next Sunday, could you please tell me which party you would vote for?"

**Sweden:** The percentage of the public supporting the incumbent party or bloc when asked the question, "Which party do you consider voting for at the next election?"

Concerning the political support model proper, let me describe three important features of the theoretical structure:

1. Voters evaluate an administration's performance relatively rather than absolutely. In particular, the model expresses voters' support for incumbents as a weighted average of two relative performance comparisons: (a) the cumulative performance of the current incumbent party/bloc in relation to the cumulative past performance of the present opposition parties/blocs, and (b) the cumulative per-

---

*Equations (1)*
formance of the current administration relative to the cumulative past performance of all previous administrations, regardless of partisan composition.

2. Although past as well as current performance influences voters' contemporaneous political judgments, the present relevance of information conveyed by past performance decays over time. Therefore, the importance attached to past performance outcomes \( Z_{-k} \) in the model is discounted backward in time at rate \( g^k \), where \( g \) is a decay rate parameter lying between zero and one.

3. Political opinion surveys typically force people to make discrete, qualitative responses. However, in principle, voters' support for the government is not a discrete "yes" or "no" phenomenon but a matter of degree, falling on an underlying continuum ranging from strongly positive to strongly negative. Therefore, following the standard theory of qualitative choice, the dependent variables in the models are derived from a logistic transformation of the observed political support responses in the opinion surveys.

The political support model is defined by the following equations:

\[
V_i = w \cdot LRM_i + (1 - w) \cdot SP_i + a_v + u_i. \tag{1}
\]

where:
- \( V^* \) is the political support index (based on a logistic transformation of the political survey responses),
- \( LRM_i \) are interparty comparisons during the \( q \)th administration,
- \( SP_i \) are interadministration comparisons of the \( q \)th administration with previous administrations,
- \( a_v \) are administration-specific constants, and
- \( 0 \leq w \leq 1. \)

\[
LRM_i = b \cdot D_v \cdot \sum_{k=0}^{\infty} g^k Z_{-k} D_{-v}. \tag{2}
\]

where:
- \( Z \) denotes a vector of economic (and noneconomic) performance variables (specified ahead) with associated coefficients \( b \),
- \( g_i \) is the rate of decay of the lag weights, \( 0 \leq g_i \leq 1 \), and
- \( D_{v \cdot -v} = 1 \) if party/bloc A is in power at time \( t \), \( D_{v \cdot -v} = -1 \) if party/bloc B is in power at time \( t \).

*Equations (1) through (4) are unlikely to interest the general reader and may be passed over.
The interplay of economics and politics in industrial democracies

\[ \text{SR}_t = \sum_{q=1}^{Q} A_q \cdot b \cdot \sum_{k=0}^{k} g_{k}^q Z_{t-k} \cdot D_{q,t-k} \]  

(3)

where

\[ A_q = \begin{cases} +1 & \text{during the } q^{th} \text{ political administration,} \\ 0 & \text{otherwise,} \end{cases} \]

\[ D_q = \begin{cases} +1 & \text{during the tenure of the } q^{th} \text{ political administration,} \\ -1 & \text{otherwise.} \end{cases} \]

Substituting (2) and (3) into (1) yields the estimating equation

\[ Y_t = w \{ b \cdot D_t \sum_{k=0}^{k} g_{k}^t Z_{t-k} \cdot D_{t-k} + R^{1,0} \} 
+ (1 - w) \sum_{q=1}^{Q} b \cdot \sum_{k=0}^{k} g_{k}^q Z_{t-k} \cdot D_{q,t-k} + R^{2,0} \} + a_t + v, \]

(4)

where

the truncation remainders \( R^{i,0} = g^{i,0} \cdot LR_{t-1}^i \cdot (D/D)_t \), and \( R^{2,0} = g^{2,0} \cdot (SR_{t-1}^i \cdot D_{t-1} + R^{2,0} \}

are safely dropped for estimation purposes.

Fluctuations in political support for various incumbent political parties and chief executives are modelled, as equations (1) through (4) indicate, by dynamic nonlinear equations that include economic as well as noneconomic terms. However, I will not dwell on the theoretical and technical features of the equations here, which are of interest only to academic specialists. Instead, attention will be confined to a discussion of the relative effects of various economic variables on political support implied by empirical estimates of models in the form of equation (4).

Table 1 reports the estimated long-run (or "steady-state") response of the percentage of the public supporting incumbent parties or chief executives to a sustained increase of two percentage points in the rate of unemployment, the rate of inflation, and the rate of growth of real per capita disposable personal income. The responses shown in Table 1 represent, then, the political/electoral consequences of sustained changes in economic performance after all adjustment lags have worked their way through the underlying dynamic equations.6

The estimates in Table 1 suggest that political support in the United States, the United Kingdom, West Germany, France, and Sweden is quite sensitive to performance in the real side of the economy, that is, to movements in the unemployment and/or real income growth rates. Political support among the mass publics of all the countries, except Sweden, responds
Table 1. Approximate responses of political support percentages to a sustained increase of two percentage points in the rate of unemployment, inflation, and real income growth rates* (evaluated at 50% political support level)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Per Capita Real</td>
<td>+5.4%</td>
<td>+2.8%</td>
<td>+8.1%</td>
<td>3.8%</td>
<td></td>
</tr>
<tr>
<td>Disposable Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Growth Rate, R</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment Rate, U</td>
<td>-4.5%</td>
<td>-6.4%</td>
<td>-2.3%</td>
<td>(-4.2%)</td>
<td>(-11.5%)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-3%</td>
</tr>
<tr>
<td>Consumer Prices</td>
<td>-1.7%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inflation Rate, P</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in Inflation</td>
<td>-6.2%</td>
<td></td>
<td></td>
<td></td>
<td>-0.5%</td>
</tr>
<tr>
<td>Rate, (P-P-1)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


In the United States and the United Kingdom, this variable was adjusted for adverse effects of shifts in the terms of trade following the oil price shock. See Hibbs, "On the Demand for European Outcomes" (refer to footnote a for full reference) for details.

Based on equation (8) of Hibbs and Madsen, op. cit.

The expected response of mass political support to a two-percentage-point increase in unemployment in Sweden is particularly large. This undoubtedly reflects the preeminence in postwar...
Swedish political life of the full-employment issue. Low unemployment has been the most important theme of the Swedish Social Democrats' electoral mobilization strategy since the early 1930s. And it proved successful: the Social Democrats governed continuously in Sweden for forty-four years, from the early 1930s until their narrow defeat by the Bourgeois bloc coalition in 1976.

Mass political support for British governments also exhibits great sensitivity to unemployment fluctuations, especially when evaluated relative to the political response to nominal inflation-economic outcomes. Again, this probably reflects the Labour Party's emphasis on full employment in political discourse, which has generated widespread public expectation of sustained high employment in Britain.

Taken together, the political responses to unemployment in Table 1 belie the idea that unemployment no longer has sizable adverse political consequences because unemployment compensation programs and other features of the tax and transfer systems of advanced industrial democracies shelter those affected directly from the full impact of recessions and joblessness. It is of course true that tax-transfer systems do spread the costs of unemployment widely throughout society, and therefore for many people, loss of employment no longer poses an economic disaster. Nonetheless, unemployment represents lost real output and underutilized human and physical resources, and the measurable economic costs can reach staggering proportions. In the United States, for example, each extra percentage point of unemployment is accompanied by a real output decline of at least two percent, which in a three-trillion dollar economy amounts to about $60 billion of unproduced output, or $750 per household. In view of the aggregate economic costs, the corresponding aggregate political costs (in the form of declining political support) of rising unemployment and falling real output and income are hardly surprising. Indeed, to readers not familiar with empirical results in this area of research, they probably seem "small."

The estimates of the responses of political support to inflation shown in Table 1 indicate that the political costs of deteriorating nominal economic performance are less uniform cross-nationally than the analogous political costs of higher unemployment and lower real income growth. In France and Sweden, the decline in political support associated with increased consumer price inflation in the models was negligible. In these countries, adverse political consequences of inflation appear to be transmitted largely through the impact of rising prices on the real income growth stream (price increases running ahead of money income growth rates) or on the unemployment rate (if one believes, contrary to the traditional view, that high or accelerating inflation yields increased unemployment). For Great Britain, the results indicate that the electorate is not averse to inflation per se, but that changes in the inflation rate (accelerations and decelerations of prices) have important consequences for mass political support. Since the change (first difference)
of the inflation rate is a reasonable (though simple) measure of inflationary surprises, this result is consistent with the view that the pain induced by rising prices is primarily due to unanticipated bursts of inflation.

Only in West Germany and the United States does the simple rate of change of consumer prices—the inflation rate—appear to have statistically and politically significant consequences. Since these results are based on models including the rate of change of real personal disposable income among the explanatory variables, the inflation estimates imply that voters are averse to rising prices per se. In other words, even if money incomes keep pace with price rises, governments suffer losses of political support as a result of inflation. A discussion of the tangible economic costs underlying the estimated political costs of inflation is beyond the scope of this paper. However, I have treated this question at some length in other articles.  

4. Modeling electoral pressures on macroeconomic policies

The political support models described briefly in previous sections yield information about the electoral consequences of current and past macroeconomic outcomes. Political authorities are, of course well aware that their electoral fortunes are influenced by economic conditions and, presumably, take this into account when formulating and implementing macroeconomic policies. In other words, the macroeconomic policies pursued by political administrations operating in a democratic setting typically respond to political/electoral pressures rather than to idealized, apolitical "golden rule" norms. Policy authorities of course face economic constraints that may be represented by econometric models of the macroeconomy which specify the relations among unemployment, inflation, income growth, and so on, that will vary across institutional settings. Such econometric models of the macroeconomy supply the set of feasible macroeconomic outcomes constraining politically optimal policy behavior.

On the assumption that policy authorities operating in democratic settings attempt to maintain a comfortable aggregate level of mass political support, and also attempt to pursue ideological/distributional goals, which can be thought of in terms of the distinctive economic interests and priorities of their core political constituencies, electorally motivated macroeconomic policy behavior can be modeled plausibly as the solution(s) to optimization problem(s) in which a political support model is the objective function and an econometric model of the macroeconomy forms the constraints. If the models for (formal representations of) political support and macroeconomic constraints are reasonably accurate, then dynamic optimization experiments can be devised permitting rigorous empirical investigation of such issues as: (1) the relative weight political authorities have given in the past, and are likely to give in the future (in their macroeconomic policy behavior), to the
economic preferences (distributional positions) of their core constituency, 
the opposition party constituency, and marginal/swing groups in the elector-
ate; (2) the weights macroeconomic policy actions appear to place on 
political support during inter-election periods versus election periods; and 
(3) the time horizon reflected in policy behavior as between, for example, 
the current administrative term and future administrative terms.

If comparisons of electorally motivated policy plans with actual policy 
outcomes yield systematic patterns consistent with sensible hypotheses of 
the sort embedded in points (1) through (3) above, we could seriously en-
tertain the idea of using macroeconomic policy projections generated by 
models in which the authorities are political optimizers to make predictions 
of future policy reactions to future economic disturbances. However, before 
one can make strong statements along these lines, a great deal of research 
in this framework needs to be done. Unlike the situation with respect to 
political support models, where reliable and theoretically interesting con-
nexions between electoral outcomes and macroeconomic performance are 
well established, optimization-based characterizations of macroeconomic policy 
behavior and associated predictions of likely future policy actions are not 
for the most part an unexplored area of research.

NOTES

1. For wider ranging treatments readers might consult the recent volumes by Bruno Frey, 
   (eds.), 1981, *Contemporary Political Economy* (North Holland); and Paul Whiteley 

   Labor and Economics* 18, 827–846; and Bruno Frey, 1978, "Political-Economic Models and 

3. Despite the emergence of the "Greens" and the anti-nuclear weapons movement in 
   Germany, this remains true for the early 1980s as well. Public opinion data (and profes-
   sional political judgments), for example, indicate that the decisive issues for the March 6 
election of 1983 were economic.

4. An exhaustive list of electoral outcomes induced by economics undoubtedly would be 
   much longer. Seymore Martin Lipset ("No Room for the Int: Elections around the 
   World," *Public Opinion* 5, October/November, 1982) notes that a simple "misery in-
   dex"—the sum of the inflation and unemployment rates—is a powerful predictor of re-
   cent political outcomes in seventeen electoral democracies. Looking at the period 1975– 
   1982, Lipset notes that when the misery index was less than ten percent, incumbents 
   were reelected; when it was higher, they almost always were defeated. My purpose 
in this paper is not so much to devise a predictive rule of thumb, as it is to tie the con-
nexions between economic performance and electoral support to a rigorous theory of politi-
cal evaluation and choice. However, I encourage readers with less academic interests 
and tastes to look at Lipset's engaging analysis.

   and Mass Political Support for Presidents Pompidou and Giscard d'Estaing," *European 