Economic voting in a crisis: the Irish election of 2011

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Abstract: The paper explores a question raised by the 2011 Irish election, which saw an almost unprecedented decline in support for a major governing party after an economic collapse that necessitated an ECB/IMF ‘bailout’. This seems a classic case of ‘economic voting’ in which a government is punished for incompetent performance. How did the government lose this support: gradually, as successive economic indicators appeared negative, or dramatically, following major shocks? The evidence points to losses at two critical junctures. This is consistent with an interpretation of the link between economics and politics that allows for qualitative judgements by voters in assigning credit and blame for economic performance.

KEYWORDS: Economic voting, Irish elections, economic crises, credit and blame, time series, vote function

1.1 Introduction

The Irish election of 2011 saw one of the most severe collapses ever suffered by a governing party in a stable democracy, as Fianna Fáil's (FF) vote fell from 41.6 per cent in 2007 to just 17.4 per cent, a drop of just over 24 points.[1] To put this in context, Powell and Whitten (1993) estimated the typical 'cost' of governing at just 3.5 per cent. Volatility in the election was assessed at 29.6 on the Pedersen Index, making this the third most volatile election in long-established European democracies since 1945, and certainly the most volatile without the presence of a significant new party (Mair, 2011). FF had dominated Irish politics since its first election victory in 1932, and had never before won less than 39 per cent in a general election. While the result was dramatic, it was hardly unexpected. The election came just three months after Ireland had been visited by a team from the IMF and ECB tasked with identifying Ireland's borrowing requirements after catastrophic economic collapse and strict policies were to be put in place to ensure repayment. During the 2007 election campaign few had claimed that the 'Celtic tiger' days of rapid growth were likely to continue, but all parties had sought to outbid one another with promises of spending more and taxing less. Only sixteen months later fears of collapse in Ireland's banking institutions led the government to offer a comprehensive guarantee to all depositors and bondholders. Credit facilities dried up, and the construction sector, the main driver of growth in the previous few years, contracted rapidly. State revenues were dependent upon house purchase taxes to an unhealthy degree and the government was forced reverse 15 years of policy by initiating sharp reductions in public spending and significant increases in taxation. Over the next 30 months growth rates became negative, unemployment levels doubled, from 7 per cent to almost 15 per cent, public sector wages were cut by an average of 13 per cent, government services were reduced and capital projects delayed or abandoned. Introducing his pre-election budget in December 2010, the Minister for Finance, Brian Lenihan, explained that the government had already made a significant adjustment in the public finances. Without it, the deficit would already have ballooned to more than 20 per cent of GDP as opposed to the 12 per cent at which it then stood. The budget approved by parliament after the ECB/IMF 'bailout' included a combination of further cuts

and tax increases designed to close this projected deficit to just 9 per cent of GDP. Continued reductions in current spending set out in late 2010 in the *National Recovery Plan 2011-2014* were intended to bring spending back to 2007/2008 levels and the deficit down to only 3 per cent. Small wonder that the government lost the election. Even so, FF's decline was precipitous.

Anderson, reviewing the literature on economic voting up to 2007, called into question one of the best-known maxims for predicting elections – "it's the economy, stupid" – as well as, more significantly, the role of elections in providing accountability. He concluded that the economy-vote link is "intermittent, highly contingent, and substantively small" (Anderson, 2007: 286). An extensive comparative study estimated the median economic vote at 5 per cent, the consequence of a "moderate decline in perceptions of economic fortunes" (Duch and Stevenson, 2008: 64). We would expect the decline in perceptions in Ireland to exceed anything that could be described as 'moderate', but it would appear to have to be very much greater to account for a change five times that of the median. This might suggest that this decline is attributable to factors beyond simply economic perceptions.

Duch and Stevenson's analysis is just one of many published in recent years exploring not simply the strength of the economic vote but also the variations in that strength across political contexts. Explanations for variations in the strength of such effects focus on different aspects of the long causal chain between the real performance of the economy and vote choice. The first set concerns the link between objective economic change and subjective evaluations: statistics may show the economy getting better or worse, but how effectively is that information absorbed by voters and translated into perceptions of economic conditions? The second set focus on the link between evaluations and the attribution of responsibility. Political institutions can obscure responsibility (Powell and Whitten, 1993); increasing globalisation limits the policy menu available and increases local dependence on global economic performance (Duch and Stevenson, 2010); attitudinal constraints on apportioning credit or blame, such as partisanship (Rudolph, 2003) can also serve to limit, or exaggerate the electoral impact of the

economy. A third set concerns the translation of attributed evaluations into a decision to vote for a particular party. The ease with which voters desert a party is variable. This may be simply a feature of party preference structures across a number of issues (van der Brug et al., 2007), but it may be that a party has a reputation for competence (Duch and Stevenson, 2010) that is eroded by economic performance in a manner that is not linear. In 1992 'Black Wednesday' marked an abrupt shift in the British Conservative party's economic credibility when the government was forced to withdraw the pound from the European Exchange Rate Mechanism (ERM). The decision lost the Conservative government the next election (Whiteley, 1997).

The Irish case can be considered in the light of these three linkages. As far as the first is concerned, there was a heavy concentration on the economic crisis in the media, particularly from the bank guarantee onwards, and the public was paying much greater attention. It is possible that in these circumstances public perceptions might have led economic indicators, but we would expect that the public would have been very conscious of the worsening economy. The second link is the allocation of blame. In recent years FF had 'owned' the economy as an issue, apparently securing votes on the basis of its successful stewardship since 1997. Focus group research by RED C suggested that voters in 2007 would be even more likely to support FF if they saw clouds on the economic horizon, findings that inhibited opposition parties from pointing out that the economy was fragile at best. Finally, we should consider the attractiveness of the opposition: did it offer a reasonable alternative? The Irish party system has had a narrow ideological range and party attachment is low, with no more than a quarter of voters willing to describe themselves as being 'close' to a party in 2007 (Marsh, 2009: xx). In sum, conditions in 2011, which supported a consciousness of economic decline and a perception, despite Ireland's unusually open economy, that FF was substantially responsibility for the crisis, neither prevented disaffected FF voters from exiting the party nor offered any comfort that things would be better under an alternative. One would have expected the election to have been a disaster for the government, but even so, the scale of the collapse was remarkable.

This paper examines the economic record of the FF government with a view to establishing what relationship exists between perceptions of the crisis and the vote in 2011 and how far that is unusual in Irish elections. The second aim is to explore when support for FF began to fall away, and see how well that links to the times of change in the economy. The third aim is to establish whether or not critical time points, such as those identified above, had an importance equal to or exceeding the economic series tracing the crisis. It is argued here that the scale of the reversal suffered by FF exceeds that which might normally be expected to flow from changes in levels of inflation, growth or unemployment.

2.1 Economic assessments and voting in 2011

We have already given some indication of the extent of the decline in the Irish economy between 2007 and 2011, but Table 1 summarizes some key indicators, contrasting May 2007 with February 2011.

INSERT TABLE 1 ABOUT HERE

While inflation had fallen, unemployment was increasingly negative, as was consumer confidence; growth was low and the public deficit had ballooned. We will explore these indicators in more detail below but first we will examine what voters in 2011 thought about the economic record.

The most widespread indicator of economic perceptions in the context of electoral behaviour is one that asks voters to evaluate the recent behaviour of the economy. The 2011 Irish National Election Study asked voters to assess economic performance over the previous three years or so, making it explicit that this was the lifetime of the current government. This echoed the format of a question asked in previous years. Table 2 shows the assessments.

INSERT TABLE 2 ABOUT HERE

Voters were almost unanimous in saying that things had become worse, being even more homogenous in their negative judgement than those in 2002 and 2007 had been in their positive one. Even so, there is some variance, with 'only' 80 per cent saying things were 'a lot worse'. It would be expected that these evaluations would be associated with voting for the government parties, and indeed this is the case. A regression of FF vote on evaluations demonstrates a highly significant relationship, but also suggest a stronger relationship in 2011 than in earlier years. The odds ratio is .52 in 2011, as compared to .73 in 2007 and .78 in 2002. We can get a good indication of the impact of economic perceptions on the vote by examining what support level would be expected for FF in 2011, given the economic evaluations observed, had these related to vote as they did in earlier years. In our unweighted sample, FF won 15 per cent of the vote. However, if the strength of economic voting in 2011 had been unchanged from 2007 the party would have won 25 per cent, and using the economic vote strength from 2002 it would have won almost 30 per cent. This is a very striking contrast. The economy was certainly bad, but it appears that this impacted much more adversely on FF's fortunes than we would have expected from the evidence of 2002 and 2007.

2.2 The timing of Fianna Fáil's decline

Public confidence in FF did not wither slowly. Figure 1 shows the record of voting intentions in the polls, using just those carried out (typically for the *Sunday Business Pos*t) by RED C.[2] The series starts in September 2005 and ends with the 2011 election. The graph is divided into four with one division in May 2007 (the election), a second in September–October 2008 and a third in September–October 2010. There is a lot of volatility, with polls fluctuating from well under 20 per cent to above 40 per cent. The election in May 2007 was a high point. A change of leadership early in 2008 seemed to promise better fortunes for the party but the honeymoon was short and there was a very sharp fall between September and October 2008. FF never again exceeded 30 per cent. There was a further significant fall between September and October 2010, before the arrival of the ECB/IMF, which took FF below 20 per

cent. Again, it never reached even that level again. It is worth looking at what happened at each of these critical times.

First there were the few weeks starting with the bank guarantee of 30 September 2008. There was little or no warning of the government's decision to guarantee the entire Irish-owned part of the banking system for two years, exposing the State to the liabilities of the banks, potentially totalling €400 billion according to *The Irish Times* on 1 October 2008. Perhaps the tough budget, introduced several weeks earlier than normal on 14 October 2008, compounded the loss of confidence in the government's capacity to manage the economy. There was a reversal of the policy of free health care for the over-70s which provoked unprecedented street protests by 'grey' voters. The government backed down, but the budget clearly signalled the departure of the 'Celtic Tiger'. The next poll was taken just after this reversal, on 22 October.

Late September/October 2010 was less dramatic, but enough happened to demonstrate that things were even worse than they had seemed before. On September 30, 2010 the government announced it would withdraw from the international bond market, as the only price at which it could borrow the money required to sustain public expenditure commitments was prohibitively high. It also admitted that the adjustment that would be required in the December 2010 budget would be nearly twice what the voters had previously been led to expect. The economics editor of *The Irish Times* put the chances of an IMF intervention at 50:50. The Green Party called for an all-party forum to build support for the measures necessary to address the deficit. Instead, the prime minister announced official briefings on the crisis for opposition leaders and called on them to support the necessary budgetary measures. There was another significant event in November after the ECB/IMF team arrived. The government lost a by-election very badly, but it is hard to find any significant further reaction in the polls, at least in the FF vote.

INSERT FIGURE 1 ABOUT HERE

The overall pattern is clear. Essentially, Fianna Fáil voting intentions show little trend in 2005-11, but there is a sharp fall to a lower level following the bank guarantee, and another two years later. In the intervening period the party did not suffer the loss of support that might have been expected, despite what was originally termed 'the world's cheapest bailout'[3] soon "matching episodes of the most severe economic distress in post-World War II history"[4] according to the IMF. After September 2008 Fianna Fáil support never again exceeded 30 per cent, and it never exceeded 20 per cent after September 2010.

The thesis argued here can be explored statistically. Table 3 shows the results from an interrupted time series analysis (Shadish, Cook and Campbell, 2002) estimated using simple OLS. The model contains three trend terms and two dummies. The two dummies are the two treatments `Bank guarantee' (coded 0 prior to September 2008, 1 post-September 2008) and `Withdrawal from bond market' (coded 0 prior to September 2010, 1 post-September 2010). The trend terms are 'Time' (continuous variable beginning at 1 from September 2005 to February 2011), 'After bank guarantee' (coded 0 before bank guarantee and continuous starting at 1 in October 2008 until February 2011) and 'After withdrawal from bond market' (coded 0 before the withdrawal from bond market and continuous starting at 1 in October 2010 until February 2011). The constant term indicates the baseline level of FF support at time zero. The data is the series shown in Figure 1, but converted to a monthly series, with imputation for missing months. This is necessary to allow for the proper treatment of time in the OLS regression.[5]

INSERT TABLE 3 ABOUT HERE

The results tells us that the two times highlighted and discussed above each prove to be significant points in the series, the first representing a drop of almost 11 percentage points and the second a further drop of 5 points respectively immediately after the two events. The rate of change in Fianna Fáil support prior to the introduction of the bank guarantee was increasing 0.05 per cent per month, a rate not statistically different from zero. However,

the rate of change in Fianna Fáil support after the introduction of the bank guarantee was decreasing by 0.185 per cent (0.05 - 0.236) per month. The change in trend from the period after the introduction of bank guarantee to the period after the withdrawal from the bond markets is a decrease of 0.254 per cent. The latter however is not statistically significant. The adjusted R squared is 0.86, with a root MSE of 2.8 indicating a good fit for such a simple model.

In the next section we will examine the economic record in more detail and see how this 'crisis of confidence' model fits into a more conventional economic vote function.

3.1 Economic trends and an economic vote function

The changes described above in terms of critical events can also be looked at using more conventional indicators, such as growth, unemployment and inflation, and also measures of economic confidence amongst the electorate. It is important not only to examine these as a record of economic decline, but also to see whether the periods we have identified above relate clearly to the objective economy, or even the economy as perceived by voters. In Figure 2 we show four indicators of economic health over the six-year period covered here and in Figure 3 we map each of the four economic series onto a line graph of FF popularity, using the monthly series used in Table 3.

From the Irish Central Statistics Office (CSO) we use the seasonally adjusted standardised unemployment rate (%) and percentage change over the same month in the previous year in the Consumer Price Index (CPI) to show inflation. Growth is based on a monthly measure of economic activity – percentage change over the same month last year for the seasonally adjusted monthly index of industrial production (NACE Rev.2, base year 2005) from Eurostat. Subjective evaluations of the economy were constructed from the data available from the joint harmonized EU program of business and consumer surveys run by the European Commission Directorate-General for Economic and Financial Affairs. Our data on subjective evaluations are based on its consumer confidence indicator (CCI) (The Joint Harmonised EU

Programme of Business and Consumer Surveys, 2007). All questions refer to the next 12 months, and the CCI series are presented in percentage points.[6]

INSERT FIGURE 2 ABOUT HERE

Figure 2 shows considerable change between 2005 and 2011 in all four economic series. (We have marked the two crises, as well as the 2007 election, on the graph.) Inflation rose to around 5 per cent, but dropped very sharply after the bank bailout to a negative figure of almost -7 per cent in late 2009, only to rise equally rapidly back to a small positive figure by the time of the election. Unemployment rose at the start of 2008, growing more steeply by mid 2008, and continued to do so until Autumn 2009, when after a brief plateau, it rose again to stand at 15 per cent at the time of the election. Growth was on a downslope from the start of the period, bottoming out in 2009 and generally rising from that point. Finally, consumer confidence tracks growth and reaches its floor just *before* the bank bailout. It then rises, only to start to drop back before the autumn 2010 crisis.

INSERT FIGURE 3 ABOUT HERE

Figure 3 maps each of these economic indicators on to the FF series. In general most of them – inflation is an exception – lead the FF series until the bank bailout. The real economy was in decline, and people had noticed, but it was only after the bank bailout that this translated into voting intentions. Thereafter, each series tracks the FF vote in different ways. The rise in unemployment after October 2008 has no immediate impact; growth runs counter to the FF trend until the end of 2010, and consumer confidence tracks closely only from late 2010, again seeming to lead rather than follow. While it is arguable that the low FF vote in February 2011 had its roots in rapidly rising unemployment, falling or zero growth and negative inflation, as well as very significant consumer pessimism, the *timing* of that party's decline suggests that it took some time for this economic message to translate into a withdrawal of support for the party. In an earlier section we suggested that the economic vote function required that people perceived the economy as it was,

and that they held the government responsible, and then voted accordingly. The first part of this is clear enough. Consumer confidence tracks growth quite well, and fell before unemployment started to increase. The second and third parts of the story took longer to catch up. While we have no series of data on responsibility, over 80 per cent of voters in 2011 did hold FF accountable for the economic downturn, and the disasters that followed that downturn.[7]

Next we test whether the economy can explain the decline in FF popularity better than the quasi-experimental model presented in Table 3. Following the approach used in economic voting we explain FF popularity with sequential additions of individual economic indicators (Models 2-5) and a combined model that includes all economic variables (Model 6). All models also include dummies for both crisis events. The models do not include time trends. This omission allows us to capture any time-series effects of the economic variables. Because this in turn leads to significant autocorrelation in the error term, we estimate the models using the Newey-West estimator, which is a heteroskedasticity and autocorrelation consistent (HAC) estimator of the standard errors.[8] For consistency we also include the Newey-West estimator of our interrupted time-series model (Model 1).

INSERT TABLE 4 ABOUT HERE

The results in Table 4 indicate that, apart from unemployment, no individual economic variable has any effect on FF support beyond the effect of the two crisis dummies. Furthermore, the results in Models 2-5 are broadly consistent with our baseline results from the interrupted time series analysis in Model 1. Those in the last column (Model 6) stand out as being generally weaker than any other model. This is possibly due to it being more demanding, with a relatively large number of variables for the given number of observations. However, even in this model unemployment and the dummies do all the talking. Tests of joint significance allow us to overwhelmingly reject the joint hypothesis that the model excluding both dummies is correctly specified relative to the full model in all models (Models 1-6).

4.1 Discussion and conclusions

The decline in support for the dominant government party in the 2011 election was remarkable, but hardly inexplicable. Indeed, given that the election took place with the country in receivership, and given that FF had been in government since 1997, we might well have expected the electorate to serve as a rational god of punishment and reward, with punishment being the operative term in this instance. Even so, a sanction so severe is not easily fitted into usual economic vote explanations, either in terms of cross-sectional subjective evaluations or of a time series model. One reason is that the dramatic crises provided an intense lesson to the electorate about how bad things now were, which made it easy to place the blame for the debacle firmly with FF and so remove the credibility that they had established over the previous decade or so as being the most able party on the issue of the economy. Such an interpretation allows us to understand the extent of FF's decline.

This story is persuasive for a number of reasons. First, we have shown that FF support fell sharply and permanently after each critical point. This is very evident from a simple graph, and is confirmed by a statistical analysis that shows these two downward steps as highly significant. The second body of evidence comes from the economic indicators available. These demonstrate that the economy declined severely from where it had been in 2005, and even where it stood in 2007, when FF was re-elected for the third time in succession. The economy declined for some time before there was any impact on the popularity of the main governing party. This is not because nobody noticed. On the contrary, consumer confidence had been falling since before the 2007 election, but this did not translate into poll numbers for the government. Only after the bank guarantee did FF start to show the impact. Even then the dismal economic news did not have further impact until another episode two years later persuaded the public that things were even worse than it had believed, and confirmed that FF was to blame. Formal tests of the relationship between the FF vote and declining economic circumstances provide support for the contention that the associations between objective

(and even subjective) indicators and the vote are not strong. Only the unemployment figures seem to drive the decline further, once we allow for the impact of the two critical points.

This suggests two important conclusions. The first is that the impact of a declining economy on the outcome of the 2011 election in Ireland cannot be understood independently of the events that helped to educate and politicise the voters. These had a critical impact on the electoral earthquake. The second, and more important conclusion, underlines the need for vote and popularity functions to take such critical junctures seriously. Without them, an economic popularity function would work well, and pass all the appropriate statistical tests, but it would not capture the full story, demonstrated in Figures 1 and 3. Certainly we must capture the quantitative changes taking place in the economic record, but the link between this and political choice is not deterministic, and requires a more qualitative assessment by voters in terms of who is to blame, how strongly voters want to punish them, and who could do any better.

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	May 2007	February 2011
Consumer confidence index	-5	-24
Inflation	5%	2.2%
Unemployment	4.5%	14.7%
Index of industrial production	-6	-2
Public sector deficit	0%	12%

Table 1 Key economic indicators, 2007 and 2011. Source: see below

Election	2002	2007	2011
Economy better or worse in lifetime of government:			
Got a lot better	45	32	*
Got a little better	39	42	1
Stayed the same	7	15	3
Got a little worse	7	8	16
Got a lot worse	2	3	80

Table 2 Economic evaluations 2002, 2007 and 2011. Note: * less than 1%. Source: Irish election studies 2002-2011

	FF popularity
Time	0.05
	(0.06)
Bank guarantee	-10.61***
	(1.836)
After bank guarantee	-0.236**
	(0.098)
Withdrawal from bond market	-5.016***
	(1.019)
After withdrawal from bond market	-0.254
	(0.230)
Constant	35.58***
	(1.008)
Observations	66
Adjusted R-squared	0.859

Table 3 Quasi-experimental analysis of the effect of two major economic events on Fianna Fáil popularity. Interrupted time series analysis using simple OLS. Note: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

	(1)	(2)	(3)	(4)	(5)	(6)
Time	0.050					
	(0.065)					
Bank guarantee	-10.615***	-9.414***	-5.685*	-12.259***	-11.977***	-4.528
	(2.437)	(2.663)	(3.377)	(1.166)	(1.357)	(2.824)
After bank guarantee	-0.236***					
	(0.083)					
Withdrawal from bond market	-5.016***	-9.784***	-6.023***	-7.805***	-8.244***	-6.928***
	(1.033)	(1.875)	(1.208)	(1.198)	(0.789)	(1.735)
After withdrawal from bond market	-0.254*					
	(0.139)					
Inflation		0.376				0.334
		(0.286)				(0.209)
Unemployment			-0.864**			-0.734*
			(0.417)			(0.397)
Industrial production				-0.040		-0.065
				(0.062)		(0.075)
Consumer confidence					0.003	0.018
					(0.063)	(0.075)
Constant	35.582***	34.953***	40.757***	36.533***	36.588***	38.841***
	(1.256)	(1.458)	(1.971)	(0.652)	(0.913)	(2.414)
Observations	66	66	66	66	66	66
F statistic	250.92	255.37	284.68	246.57	279.15	133.1

Table 4 Simple interrupted time series model compared to models including economic explanations of the decline in FF support. Note: Models are based on simple economic voting models. All models are estimated using the Newey-West estimator to produce heteroskedasticity and autocorrelation consistent standard errors (we used three lags in estimation). Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Figure 1 FF in the polls from October 2005 to February 2011 (All polls from RED C)

Figure 2 Illustrative representation of change in economic indicators 2005-11. All four indicators mapped on individual axes, not presented here.

Figure 3 Fianna Fáil popularity and four economic indicators

NOTES

[1] The 2007-11 government was formed by FF along with the Greens and the Progressive Democrats (PDs), although FF initially held 78 of the government's 86 seats in the 166 seat parliament. The PDs were formally dissolved in November 2009. This paper concentrates on FF as by far the largest party in the government as well as the dominant party in Irish politics for the last 80 years, but the losses suffered by the Greens (4.7 down to 1.8) were slightly larger in relative terms.

[2] See www.redcresearch.ie

[3] *Irish Times* 10 October 2008.

[4] Ireland: 2009 Article IV Consultation - Staff Report; and Public Information Notice on the Executive Board Discussion (IMF, June 24, 2009): www.imf.org/external/pubs/ft/scr/**2009**/cr09195.pdf

[5] We tested for autocorrelation in our model using both the Breusch-Godfrey and Durbin-Watson tests. Both tests indicated no autocorrelation in the model (possibly the effect of including the time trend). Hence we estimated our model using simple OLS with robust standard errors.

[6] The Commission's consumer confidence survey monthly series for Ireland are unavailable after April 2008. The local partner of the Commission was the Economic and Social Research Institute (ESRI) who in collaboration with the IIB Bank have produced a monthly index (CSI) from January 1997 (Duffy and Williams, 2002). The index covers most of the questions used to create the CCI series. Despite slight differences in construct, the two series behave very similarly over time with Pearson's correlation at 0.96. We impute the missing data in the European Commission CCI series from the ESRI CSI series.

[7] Authors' analysis of 2011 Irish election study

[8] As the maximum lag we specify the third lag following a simple rule of thumb that maximum lag equals fourth root of sample size.