

379  
N81  
NO. 6872

THE SUBJECTIVE ECONOMY AND POLITICAL SUPPORT:  
THE CASE OF THE BRITISH LABOUR PARTY

THESIS

Presented to the Graduate Council of the  
University of North Texas in Partial  
Fulfillment of the Requirements

For the Degree of

MASTER OF SCIENCE

BY

Karl Ka-yiu Ho, B.A.

Denton, Texas

December, 1992

HDC

Ho, Karl Ka-yiu, The Subjective Economy And Political Support: The Case of The British Labour Party. Master of Science (Political Science), December, 1992, 68 pp., 7 tables, 13 illustrations, bibliography, 66 titles.

During the past two decades, extensive research efforts have focused on the conventional wisdom that the economy has a direct influence on a party's destiny. This hypothesis rests on the implicit assumption that the linkages between macroeconomic variables such as inflation and unemployment and party support are direct and unmediated. As the present study indicates, however, objective economic measures only serve as a proxy for the invisible force that drives voters' party support. Once the relevant variables, namely, the perceptual factors of the electorate, are controlled for, variables that describe the state of the objective economy fail to exert their "magic" on political behavior.

## TABLE OF CONTENTS

### CHAPTER I

Introduction . . . . .	1
Introduction	
Theoretical Background	
Economic Perceptual Factors	
Subjective economic evaluations	
Retrospective vs Prospective evaluations	
Incumbent vs Opposition Parties	
Sociotropic vs Egocentric evaluations	
Noneconomic Forces	
Hypotheses	

### CHAPTER II

Modeling Economic Perceptions . . . . .	22
Variables and measures	
Model	
Methods	

### CHAPTER III

FINDINGS . . . . .	29
--------------------	----

### CHAPTER IV

CONCLUSION: THE DUOPOLY OF ECONOMICS AND POLITICS . . . . .	52
APPENDIX A . . . . .	59
APPENDIX B . . . . .	61
REFERENCES . . . . .	64

LIST OF TABLES

Table

3.1	OLS Time Series Analysis of Labour Party Support June 1979 - June 1987 . . . . .	40
3.2	OLS Time Series Analysis of Subjective Economic Evaluations, June 1979 - June 1987 . . . . .	41
3.3	Bivariate Correlations between Prospective and Retrospective Economic Evaluations . . . . .	42
3.4	OLS Time Series Analysis of Leader's Satisfaction, June 1979 - June 1987 . . . . .	43
3.5	OLS Time Series Analysis of Voters' Satisfaction with Party Leaders, June 1979 - June 1987 . . . . .	44
B.1	Identification of Serial Correlation Problem . . . . .	62
B.2	Serial Correlation Problem Corrected . . . . .	63

## LIST OF FIGURES

### Figure

1.1	Model of Political Support as a Function of Economic Perceptions and Objective Economic Conditions . . . . .	18
1.2	Conservative, Labour and Alliance Popularity, 1979-1987 . . . . .	19
1.3	Labour and Alliance Popularity, 1979-1987 . . . . .	20
1.4	Popularity of Conservative and Labour Leaders, 1979-1987 . . . . .	21
2.1	Unemployment and Inflation Rates in Britain, 1979-1987 . . . . .	28
3.1	Labour Popularity and Misery Index, 1979-1987 . . . . .	45
3.2	Subjective Economic Evaluations and Labour Popularity, 1979-1987 . . . . .	46
3.3	Sociotropic Economic Evaluations, 1979-1987 . . . . .	47
3.4	Egocentric Economic Evaluations, 1979-1987 . . . . .	48
3.5	Prospective Economic Evaluations, 1979-1987 . . . . .	49
3.6	Retrospective Economic Evaluations, 1979-1987 . . . . .	50
3.7	Subjective Economic Evaluations, 1979-1987 . . . . .	51
4.1	Revised Model of Political Support as a Function of Economic Perceptions, Noneconomic Forces, Party Leader Images and Objective Economic Condition . . . . .	58

## CHAPTER I

### INTRODUCTION

Contemporary studies of political support have been guided by a widely accepted supposition that objective economic conditions have strong and direct effects on party popularity. The electorate, according to conventional wisdom, will consider readily available macroeconomic measures as inflation and unemployment rates before casting their ballots for the governing party or the opposition. Empirical studies focusing on the relationship between the objective economy and party support are voluminous (e.g., Goodhart and Bhansali 1970; Miller and Mackie 1973; Mosley 1978; Frey and Schneider 1978; Chrystal and Alt 1981; Whiteley 1986; Hibbs 1987a; Norpoth 1987; Clarke, Stewart and Zuk 1986; Lewis-Beck 1988; Clarke and Whiteley 1990). However, scholars have yet to arrive at a coherent answer on how the fate of a party is governed by the state of the economy. Numerous research efforts in the past two decades have analyzed on the impact of inflation and unemployment. The results of these studies are, at best, erratic and subject to contextual factors and the methods and measures employed.

The lack of consensus among the findings prompts one to question the basic assumption that the economy has a direct influence on the voters' decision on the ballot: *Do objective economic conditions automatically affect a government's popularity? Will the voter cast his or her ballot by just considering the rates of inflation and unemployment or changes therein? If not, what factors contribute to his or her perception of the economy?*

These questions lead to a concern for how voters perceive macroeconomic conditions and how they respond with support for incumbent or opposition parties. Recent studies on political economy that focus on perceptual factors have shed light on this topic by introducing a new category of variables into the analysis: voters' subjective economic judgments. The findings from these studies indicate that the voters' perceptions of economic performance exert significant effects on the way the public evaluates political parties (Sanders et al. 1987; Clarke et al. 1990; Clarke et al. 1992).

Putting the question at issue into a simple model, objective economic conditions can be viewed as input variables that influence voters' perceptions. In turn, voters process this information before making their electoral decisions (outputs) (see Figure 1).

Previous studies have postulated that objective economic conditions furnish the readily available indicators

upon which the public uses to make judgments about government performance. This information constitutes the basis upon which voters choose between incumbent and opposition: they will support the incumbent if the record of the economy is deemed satisfactory or improving, and support the opposition if it is poor or deteriorating (Key 1966; Kramer 1971). Nevertheless, the objective economy merely serves as the basis for the electorate to make their political choices.

Economic effects on political choice are filtered through public perceptions which are subject to various intervening variables (Clarke et al. 1992). Thus, the influence of the macroeconomy on political behavior is indirect and mediated by voters' perceptions of the economy.

To test this thesis, the present study examines: 1) the relationship between the objective economy and the electorate's perceptions; 2) the relationship between economic perceptions and party support; and 3) other variables that contribute to the formulation of party support and economic perceptions. Specifically, I consider objective economic measures, the electorate's subjective economic evaluations, party popularity and other noneconomic intervening factors in my analysis. The noneconomic factors consist of: 1) the voters' satisfaction with party leaders; 2) political events including the Falklands war which previous research indicates had a sizable impact on



political support in Britain during the early 1980s.

The vast majority of existing political support studies have focused on the incumbent government. The major opposition parties, which also play decisive roles in affecting political outcomes, generally have been neglected. Thus, in the subsequent analysis, I investigate the dynamics of political support for the major opposition party in Great Britain, namely Labour.

#### Theoretical Background

The pioneering study on economics and political support in Great Britain was published in 1970. Emphasizing objective macroeconomic conditions, the work by Goodhart and Bhansali (1970) examined the impact of inflation and unemployment on the incumbent government's popularity. Their findings indicate that government popularity in Britain is subject to these two variables which were "able to explain a large proportion of the variations in the recorded popularity of the two parties...the apparent sensitivity of political popularity to [which]...seems almost too much to credit" (Goodhart and Bhansali 1970:86).

Subsequent studies produced rather diversified results. While findings from studies in response to Goodhart and Bhansali challenge the significant relationship between government popularity and the macroeconomy (e.g. Miller and Mackie 1973; Mosley 1978; Chrystal and Alt 1981), other,

supporting, evidence has prompted some scholars to conclude that "government's fate at the ballot box hinge on the state of the economy" (Lewis-Beck 1990:v). Among the supporting findings is a recent study by Whiteley (1986) who employs the Box-Jenkins transfer-function model to confirm the statistical significance of the objective economy. His analyses, however, demonstrate that the relationship between the objective economy and party support is relatively weak and unstable over time (Whiteley 1986).

#### Economic Perceptual Factors

Subjective Economic Evaluations. Given the continuing debate on the issue, a pathbreaking work by Sanders, Ward and Marsh (1987) has shed light on the political economy of party support and pointed to a new direction for research. Their work, which focuses on the effect of Falklands war on Conservative support between 1979 and 1983, argues previous studies may have produced spurious results if "some potentially relevant independent variable(s) has (have) been omitted" (Sanders et al. 1987:284). Accordingly, Sanders et al. introduced subjective elements, namely, the voters' aggregate economic expectations about the future, into their model and found the perceptual factors also matter in deciding party support. The study has stimulated scholars to employ more sophisticated time series methods to assess

the significance of subjective variables (Clarke, Mishler and Whiteley 1990).

The inclusion of subjective factors in party support models is not without theoretical precedent. One of the earliest examples could be dated back to Anthony Downs' seminal work in 1957, which posits that a rational voter will make his or her voting decision based on evaluations of government performance. The utility-maximizing voter, according to Downs, will assess the economy carefully and compare present and future utility when casting a ballot for a government or opposition party. These assessments and comparisons constitute the basic elements of the electorate's perceptions or subjective evaluations of the present and anticipated performance of incumbent and opposition parties.

Retrospective vs Prospective Evaluations. As noted, a rational voter evaluates and compares the utilities that would result from choosing different parties for the future government. This leads to evaluations of the past and the future of the economy, in which the voter compares the "actual present utility income (the actual economy under the management of the incumbent party) and hypothetically present one (the opposition)" retrospectively and "two hypothetical future utility incomes (the promises by both parties)" prospectively (Downs 1957:40). This school of

thought was perpetuated by succeeding works which stressed the importance of retrospective assessments in models of electoral choice. As V.O. Key argues, "The pattern of flow of the major streams of shifting voters graphically reflect the electorate in its great, and perhaps principal, role as an appraiser of past events, past performance, and past actions. It judges retrospectively... Voters may reject what they have known; or they may approve what they have known. They are not likely to be attracted in great numbers by promises..." (Key 1966:61).

According to Key, voters base their judgments on the past, upon which they make their decision to vote for or against the incumbent government. The future elements, promises made by competing parties, do not come into play. This thesis was elaborated in studies of Fiorina (1977, 1981) and Kiewiet (1983), and Miller and Wattenberg (1985) who suggest that retrospective evaluations of the economy are more likely to be applied to presidential incumbents, while challengers are assessed in terms of promises (Elliott and Zuk 1989).

On the other hand, empirical evidence from studies mentioned earlier (e.g., Sanders et al. 1987; Clarke et al. 1990) suggest that personal expectations play an important role in electoral choice, implying that the prospective factor also has an impact on support for the ruling party and its opposition rivals. Schier and Vig (1985) suggest

that it is this prospective factor that reelected Reagan despite the high unemployment in 1982 in the United States.

Incumbent vs Opposition Parties. Questions also arise from the contextual consideration of countries such as Great Britain that have multi-party or "two-party-plus" systems (Epstein 1964). It is possible that the economic malaise experienced by the public will not directly translate into support for the major opposition party. Rather, the issue-priority concerns of the voters and the existence of a third party may lead to different consequences (Budge and Farlie 1983; Clarke, Stewart and Zuk 1986). Voters may perceive different parties as having different economic issue priorities. While the left-of-center parties like Labour emphasize lowering unemployment, right-of-center ones such as Conservatives are seen as excelling in curbing rising prices (Clarke et al. 1992; Alt 1985). This line of reasoning suggests a possible explanation for the success of the British Conservatives in the 1983 election. Although inflation soared to 22 percent in June 1980, the public considered the governing Conservatives as being more capable economic managers, particularly in controlling inflation, and thus re-elected Mrs. Thatcher's government despite the country's economic difficulties. The third party, the Alliance in Britain in the 1980s, complicates the race for public support by providing an alternative for voters

wishing to register their displeasure as a "safe protest to the incumbent" (Clarke et al. 1992). Not only that its existence replaces the "zero-sum game" in which disapproval of the government is presumably converted automatically into opposition support (Miller 1989), the erratic support from "floating" voters with weak party allegiance leads to higher volatility in public support for various opposition parties (Clarke et al. 1992).

Sociotropic vs Egocentric Evaluations. Another question regarding economic perceptions is whether voters focus on personal economic circumstances or the condition of the national economy. Previous studies have tended to emphasize the importance of the latter. Kiewiet (1983) argues that sociotropic evaluations, or the collective economic concerns, have greater significance than egocentric evaluations, i.e., personal economic concerns. Findings from other studies also suggest that the sociotropic evaluations have a direct path to the government support, but egocentric evaluations do not (Clarke and Kornberg 1989). A 1972 Center for Political Studies (CPS) election study suggests reasons for this phenomenon--in response to the question "Who, if anybody, should be helping you with your most serious personal problems?", only a minority of respondents referred to the government in general (Kiewiet 1983:130). This suggests the possibility that most voters

may feel that they are primarily responsible for their personal financial situation (Sniderman and Brody 1977; Schlozman and Verba 1979). Only when there is a perception of government responsibility for people's financial well-being will personal economic conditions influence the vote (Feldman 1982; Kinder and Mebane 1983; Whiteley 1983; Lewis-Beck 1990).

However, on methodological grounds, scholars have contended that previous studies suggesting that voters are more concerned with sociotropic than egocentric evaluations may be suspect because of an inability to measure the influence of government on the voters' personal financial circumstances (Kramer 1983; Lewis-Beck 1990). Empirically, recent studies have revealed that egocentric concerns also have significant impacts on government popularity. Sanders et al. (1987), for example, argue that voters' personal economic expectations have important effects on the popularity of the governing Conservatives in Great Britain.

#### Noneconomic Forces

Apart from economic factors, party support in Great Britain is subject to numerous short-term political forces, some of which may have a decisive impact in determine the election outcome. Starting in the early 1970s, gradual changes in social structure heralded a "decade of dealignment" (Alt 1984; Clarke and Stewart 1984) in Western

democracies. As a result, short-term forces emerged as major factors on political support in the wake of the waning of partisan allegiance among the voters. This change also accentuated the impact of economic conditions, which assumed an increasingly important role in electoral choice (Goodhart and Bhansali 1970; Kramer 1971). The replacement of party loyalty by short-term economic and political forces was reflected in the volatility of party support in Great Britain during between the 1979 and 1987 period (see Figure 2).

The general decline in popularity of the governing Conservatives from 1979 to late 1981, was reversed by a dramatic surge of 24 points, from 23 percent to 47 percent, within seven months. The party's lead in popularity enabled it to win the general election a year later. Throughout Mrs. Thatcher's second government (1983-1987), fluctuations in party support were somewhat less pronounced but history repeated itself as the Tories survived a slide to 24 percent in popularity. Public support for the Conservatives subsequently surged and the party narrowly surpassed Labour four months before the general election in 1987.

On the other hand. Labour enjoyed a comfortable lead over the ruling Tories as well as the Liberals at the outset of the 1980s. However, the formation of the Social Democratic Party headed by four former leading Labour politicians and its pact with the Liberals severely eroded



Labour's support and led its popularity to slump to a low of 24 percent in December 1981. Although Labour managed to regain a lead over the new contended ten months later, the party's internecine conflicts along with the challenge from the Alliance meant that Labour had to fight a three front battle--trying to overcome intraparty divisions while fighting both the governing Conservatives and the Alliance. Thus, Labour candidates' response to a survey, "We have spent so long arguing among ourselves that we have grown away from ordinary Labour voters" was a typical comment (Butler and Kavanagh 1984:280). The widely-distrusted leadership of Mr. Michael Foot, who was deemed an electoral liability to the party also helped undercut Labour's fortunes, at a time when it was already susceptible to weakening ties with the working class (Butler and Kavanagh 1984).

Even greater volatility was evident in public support for the third party, the Alliance. Before the birth of the Social Democratic Party (SDP), Liberal popularity typically stayed in the range of 12 to 15 percent. The coalition of the two minor parties in 1981 seemed to bring a facelift to the political arena which had been dominated by the Conservative and Labour duopoly throughout most of this century. The newfound Alliance quickly joined the race for power and succeeded in climbing to a record of 51 percent in December 1981, the highest level ever experienced by any

party between 1979 and 1987. Its newfound popularity did not last long as disputes between the two allies gradually undermined the party's public image, resulting in the waning of its public support. The success in the Falklands war enjoyed by the governing Tories in 1982 further jeopardized the popularity of the third party, which dropped to a low of 18 percent in the polls on the eve of the 1983 general election.

A closer inspection of the popularity of Labour and the Alliance reveals that the public support for the Alliance is inversely related to that for Labour (see Figure 3). This could be attributed to the fact that the new SDP was considered as a "radical center" alternative to Labour, or a Mark II Labour party" (Butler and Kavanagh 1984:70). In fact, its surge at a time when the Conservatives were unpopular for their economic failures while Labour was entangled with intraparty divisions provided a seemingly viable option for voters to register their dissatisfactions with the two major parties (Clarke et al. 1992). However, that such a "defection" was to a large extent at Labour's expense is suggested by Figure 3.

An examination of trends in party support also indicates the significance of several noneconomic factors. Among the most prominent is the Falklands war in 1982. The Southern Atlantic conflict gave the ruling Conservatives an opportunity to exhibit their capability at a time when the

country had been troubled by first skyrocketing prices and then soaring unemployment. Empirical studies have demonstrated that the war restored both the popularity of the government and its leader (Norpoth 1987; Clarke et al. 1990, 1992). Given the strength of its impact, it is reasonable to expect the war also affected the standings of the opposition parties.

In terms of other political interventions, two other factors are noteworthy: the launch of the Social Democratic Party which prompted the formation of a new third party, the Alliance, and numerous lesser events that influenced Labour's popularity. The hypothesis is that the seemingly viable third party gives the electorate an alternative to the Labour party, and thus gives leeway for public support to flow from the major opposition to the "Mark II Labour" alternative (Butler and Kavanagh 1984). On the other hand, political events such as strikes and by-election victories, which emphasize Labour's capability and ideological beliefs, should also influence the public support for it.

Another noneconomic factor is the electorate's satisfaction with the party leaders. As previous works have revealed, the contrast in characters between Mrs. Thatcher and Labour's Mr. Michael Foot prompted a major difference in the voters' evaluations of the leaders. This can be illustrated by comparing the two leaders' satisfaction indices (see Figure 4). Widespread public dissatisfaction

with Mr. Foot is evident in a boom in Labour's leader standings, which increased from 9 to 58 points, when he was replaced by Mr. Neil Kinnock in October 1983.

Having outlined trends in party support that reflect changes in the political climate of the country during the period between 1979 and 1987, I now focus my analysis on the following factors:

1. Four economic perceptual factors, namely,
  - a) Subjective economic evaluations
  - b) Retrospective and prospective evaluations
  - c) Incumbent vs opposition perceptions
  - d) Sociotropic vs egocentric evaluations
2. Noneconomic intervening factors, namely,
  - a) the Falklands war
  - b) the presence of the Alliance
  - c) Miscellaneous political events
  - d) Leader images

Finally, in order to control the effects of the electoral cycle, i.e., the high popularity period following a party's victory in general election, a "honeymoon" variable is also included in the analysis.

### The Hypotheses

The hypotheses, which guide the study are as follows:

1. Objective macroeconomic performance, namely, inflation

and unemployment, should have negative but indirect effects on Labour popularity.

2. Voters' subjective economic evaluations should be directly and negatively associated with the popularity of the principal opposition party, Labour.
3. Noneconomic factors also help determine the voters' support for the labour party. They include:
  - a. The Falklands war, acting as a significant factor in boosting the government popularity in 1982, should have a negative impact on Labour support.
  - b. The level of satisfaction with the incumbent leader, relative to her opposition counterpart, should be negatively related to Labour party support.
  - c. Alliance support should be negatively related to Labour support.
  - d. Political events such as the launch of the Social Democratic Party (SDP) and Labour's victories in by-elections should have negative or positive effects Labour support, depending on the nature of the event in question.
4. The electoral cycle effect, which represents the honeymoon period enjoyed by the winning party shortly after a general election victory, should have a negative impact on Labour party support.

5. Voters' subjective economic evaluations should have positive effects on the leader satisfaction measured as the difference between satisfaction with Mrs. Thatcher and his Labour rivals.

Figure 1.1 Model of Political Support as a Function of Economic Perceptions and Objective Economic Conditions

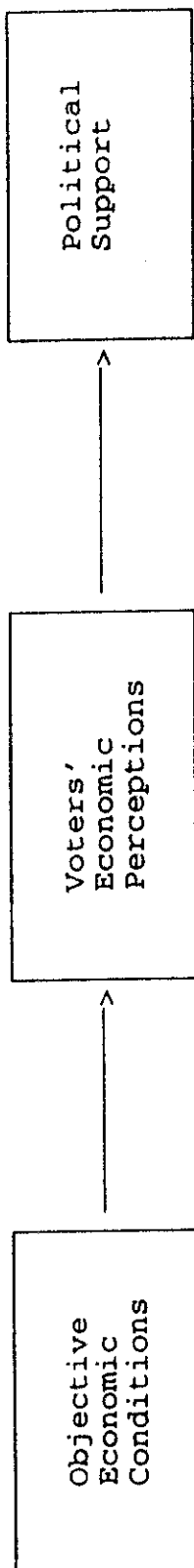


FIGURE 1.2 CONSERVATIVE, LABOUR AND ALLIANCE POPULARITY, 1979-1987

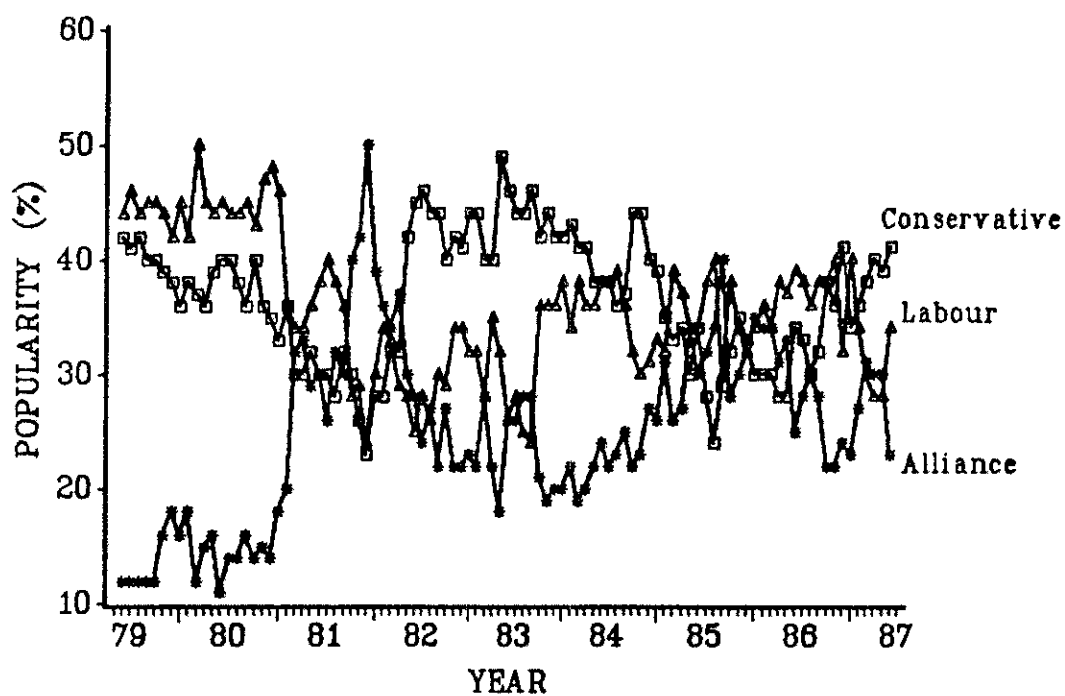




FIGURE 1.3 LABOUR AND ALLIANCE POPULARITY, 1979-1987

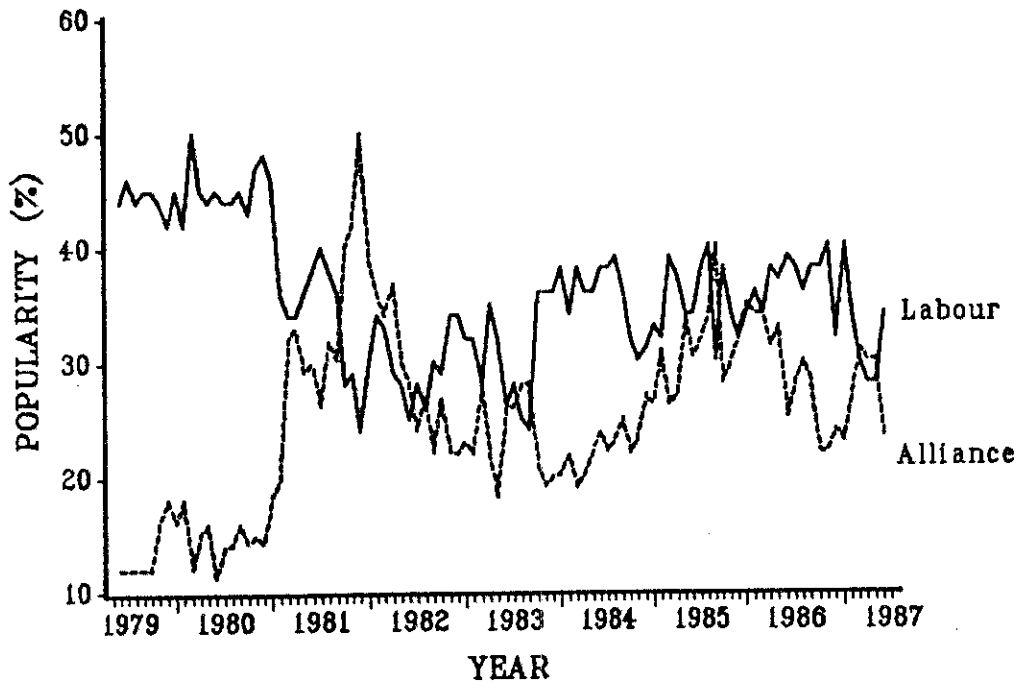
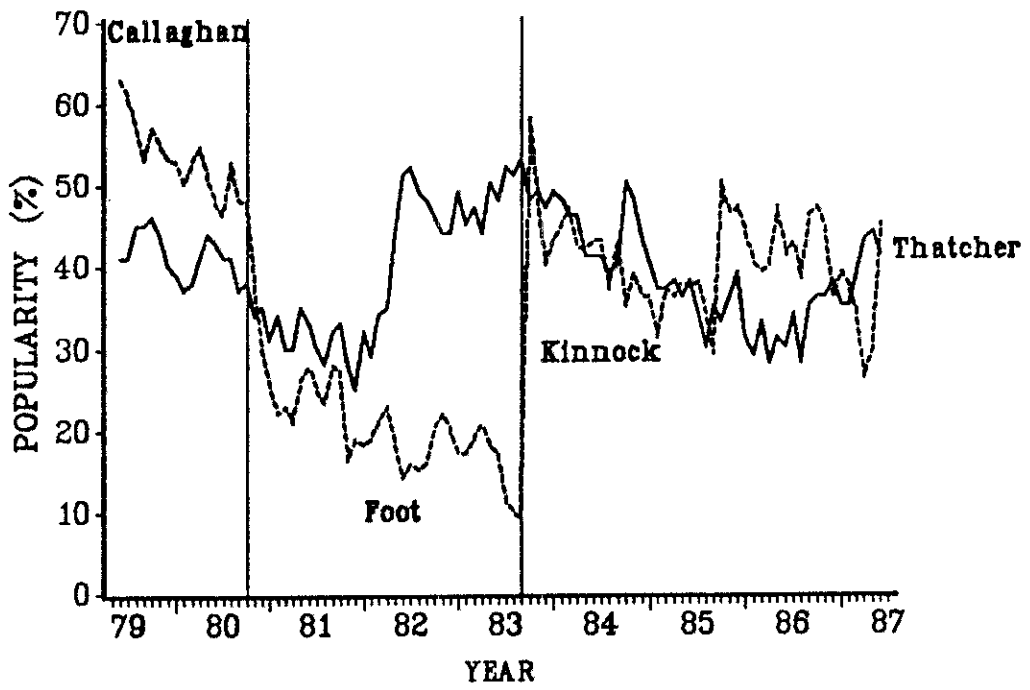


FIGURE 14 POPULARITY OF CONSERVATIVE AND LABOUR LEADERS, 1979-1987



## CHAPTER II

### MODELING ECONOMIC PERCEPTIONS

#### Variables and Measures

The party support data analyzed in this study are taken from the British monthly Gallop polls during the 1979 to 1987 period. The objective measures of unemployment and inflation are obtained from the OECD Main Economic Indicators.<sup>1</sup> Employing Ordinary Least Squares (OLS) or classical time series regression analysis with Time Series Processor, a microcomputer time series software package, a series of models are developed to gauge the impact of economic and political variables on Labour support in Britain during this period.

The subsequent analysis focuses on five categories of variables:

- (1) the popularity of the three major parties in Britain-- Conservative, Labour and Alliance (coalition of Liberal and SDP);
- (2) objective indicators of the British economy-- unemployment and inflation;

---

<sup>1</sup>Data employed are drawn from the study by Clarke, Elliott, Mishler, Stewart, Whiteley and Zuk in 1992.

- (3) subjective evaluations of macroeconomic performance, i.e., voters' subjective economic evaluations, composed of two dimensions: sociotropic/egocentric and retrospective/prospective;
- (4) voters' satisfaction with the performance of party leaders;
- (5) political events which augment or depreciate support for the various political parties.

The popularity variables, Conservative (CONS), Labour (LAB) and Alliance (ALX), are based on the combined responses to two Gallup poll questions, "If there were a General Election tomorrow, which party would you support?" If the answer is "Don't Know", another question "Which party would you be most inclined to vote for?" was asked.

With regard to the economic factors, the convention of employing macroeconomic indicators, namely, the unemployment and inflation, is followed while voters' subjective economic evaluations are included in the analysis to test and compare the two types of economic variables in terms of their effects on an opposition party's popularity. The unemployment variable, UNEMP, is the percentage of civilian labour force unemployment, while the inflation measure, INFL, is based on the Consumer Price Index.

The subjective economic evaluations comprise five variables: the egocentric (personal) retrospective evaluations, EGORET, egocentric prospective evaluations,

EGOFUT, sociotropic (national) retrospective evaluations, SOCIORET, and sociotropic prospective evaluations, SOCIOFUT. A summary index, SUBEC, is calculated as the sum of the preceding four variables. On the retrospective dimension, the two variables are constructed using answers to the Gallup poll questions: i) How do you think the general economic situation in this country has changed over the last 12 months? and ii) How does the financial situation of your household now compare with what it was 12 months ago? Similarly worded questions were employed to measure prospective evaluations with regard to the general economic situation and one's household financial situation over the next 12 months.

Political factors considered include leader popularity, political events and the Falklands war. To gauge satisfaction with the party leaders, I employ variables that measure the voters' satisfaction with the Prime Minister, Mrs. Margaret Thatcher, (PMSAT) and her Labour opponent(s) (OPSAT). I also create a "relative party leader satisfaction" variable (LEADER) by subtracting the percentage expressing satisfaction with the Labour leaders from the percentage expressing satisfaction with the Prime minister. The two variables, PMSAT and OPSAT, are measured respectively from the responses to the Gallup poll questions: i) Are you satisfied or dissatisfied with Mrs. Thatcher as Prime Minister? and ii) Do you think Mr.

Callaghan/Foot/Kinnock is or is not proving a good leader of the labour party?

Another factor affecting Labour support concerns events that direct public attention to the party, with either positive or negative consequences. To this end, a variety of events are coded according to the months during which they occurred. These events are coded as +1 and -1 respectively; other months are coded as 0 (see Appendix I). Regarding the Falklands war effect, FALK, previous research has found that it had a gradually decaying impact on Tory support (Norpoth 1987; Clarke et al. 1990). Thus, the variable is scored as 1 in the two months when the South Atlantic war took place, namely, May and June in 1982. The hypothesized effect declines at a rate of .75 per month until the 1983 general election. The election/post-election honeymoon effect, HONEY, which should bring a period of high popularity to the winning party, also is taken into consideration with regard to its hypothesized negative impact on Labour support. It declines monthly from 1 to 0.75, 0.5, 0.25 in successive months beginning in June 1983. In the 1979 general election, the effect starts from 0.75 in June 1979, since the series starts one month after the May 1979 general election.

## Model

Using the variables discussed above, the general model is as follows:

$$\text{LAB} = \beta_0 + \beta_1 \text{UNEMP}_t + \beta_2 \text{INFL}_t + \beta_3 \text{SUBEC}_t + \beta_4 \text{LEADER}_{t-1} + \beta_5 \text{FALK} + \beta_6 \text{ALX}_t + \beta_7 \text{LABEVENT} + \beta_8 \text{HONEY} + e_t$$

where:

$\text{LAB}_t$  = Labour popularity at time  $t$

$\text{UNEMP}_t$  = unemployment rate (percentage) at time  $t$

$\text{INFL}_t$  = inflation rate at time  $t$

$\text{SUBEC}_t$  = subjective economic evaluations at time  $t$

$\text{ALX}_t$  = Liberal/SDP (Alliance) popularity at time  $t$

$\text{HONEY}$  = election/postelection honeymoon effect

$\text{FALK}$  = Falklands war effect

$\text{LEADER}_t$  = the difference between satisfactions with the prime minister's performance and that of Labour leader at time  $t$

$\text{LABEVENT}$  = positive and negative effects of miscellaneous events that affected Labour popularity

$\beta_0 - \beta_8$  = regression coefficients

$e_t$  = error term at time  $t$

## Methods

As the first step in the analysis, the classical party popularity model employing the conventional macroeconomic measures, unemployment and inflation, is considered. An initial analysis of this model indicates a negative

relationship between unemployment and Labour popularity while inflation has an insignificant effect. The fact that the latter finding is inconsistent with theory prompts a correlation diagnosis of the two macroeconomic indicators. Figure 5 which illustrates trends in inflation and unemployment shows that the two macroeconomic variables are highly and inversely correlated with each other. In fact, the correlation between two macroeconomic variables is very strong (-.86), suggesting a problem of multicollinearity will arise when both of them are included in a regression model. This violates a basic assumption of the Ordinary Least Square regression analysis and may lead to erroneous results in interpreting the parameters (Lewis-Beck 1990).

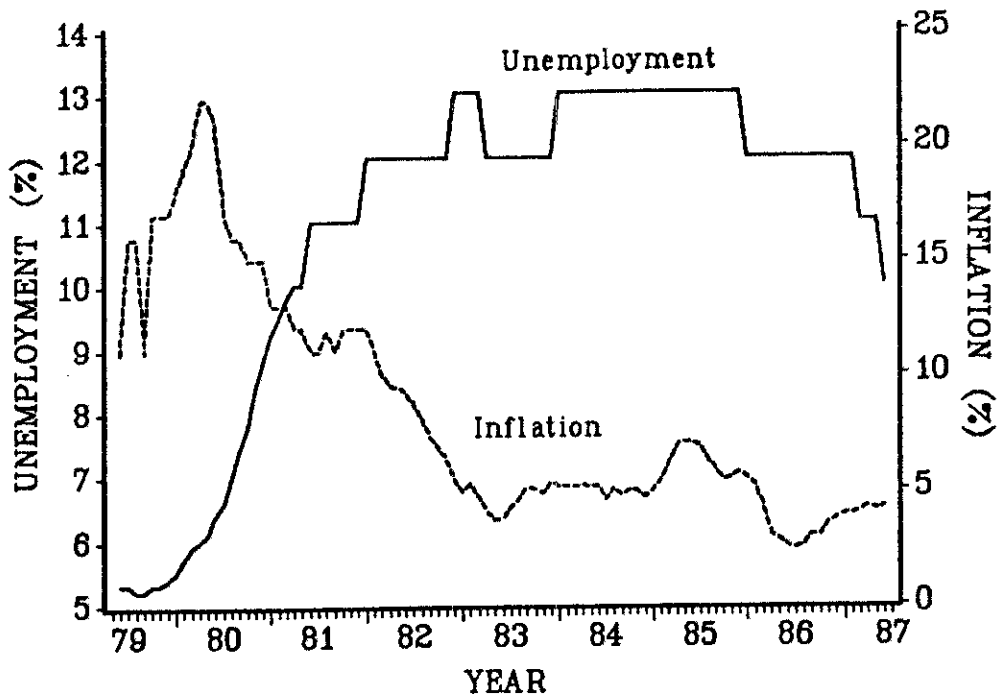
Since using inflation and unemployment in the same analysis risks multicollinearity problems, a "misery" index (MISERY) is generated as a simple arithmetic sum of the two variables. Both indices are in percentage terms, and the index weights both of its components equally.

A revised model using the misery index is as follows:

$$\text{LAB} = \beta_0 + \beta_1\text{MISERY}_t + \beta_2\text{SUBEC}_t + \beta_3\text{LEADER}_{t-1} + \beta_4\text{FALK} + \beta_5\text{ALX}_t + \beta_6\text{LABEVENT} + \beta_7\text{HONEY} + e_t$$



FIGURE 2.1 UNEMPLOYMENT AND INFLATION RATES IN BRITAIN, 1979-1987



## CHAPTER III

### FINDINGS

To examine how the economic variables affect Labour Party support, three groups of regression models are specified in which Labour support, subjective economic evaluations and leader satisfaction are dependent variables, respectively. The first set of models, which investigate the determinants of the Labour support (dependent variable), focuses on the objective economic variables while the noneconomic variables are controlled. At first blush, the misery index, which is a proxy for the overall performance of the economy, demonstrates, *ceteris paribus*, a significant impact on the Labour support. The model, however, is not satisfactory in terms of specification, as the Durbin-Watson statistic (1.57) suggests a positive autocorrelation among the residuals (see Appendix II).

A revised model controlling for serial correlation (D.W. = 2.05) presents a more accurate picture of the performance of the several predictor variables (see Table 1). The estimates are all significantly different from zero at the 0.05 level or better in most cases. As expected, the misery index has a statistically significant impact on Labour support, with the size of the estimate suggesting a

combined 10 percent increase in price hike and unemployment will help boost the major opposition party's popularity by about 4 percent. All the noneconomic variables also show promising results. Support for the third party, the Alliance, has a strong negative effect on Labour popularity, showing almost half of any boost in Alliance support will be extracted from the what of erstwhile Labour supporters.

The honeymoon period enjoyed by Labour's principal opponent, the governing Conservatives, also negatively affects Labour support, by extracting over 5 points from it. Note also that the Falklands war effect is in evidence as well. Indeed, the effect is the largest of any of the predictors: more than seven points' loss in Labour popularity is attributed to the outbreak of the war in the spring of 1982.

The political event variable also affects Labour popularity, exhibiting the importance of various miscellaneous political events in influencing party support: each event produces more than a 3 point movement in Labour popularity. This is however subject to the nature of each specific event--for example, the launch of the SDP in February 1981 which was supposed to weaken Labour support carries a value of -1 and thus will have a negative influence on Labour popularity. Finally, leader satisfaction, which is modeled with a one-month

lag<sup>2</sup>, also has significant effects on Labour support. The estimate (-0.13) is not large, but given the large gap in public evaluations of the Conservative and Labour leaders in the early 1980s, the impact was substantively meaningful.

To further inquire about the effect of the economy on party support, the summary subjective economic evaluation variable (SUBEC) is incorporated in the model. The analysis indicates that voters' judgments about the past and future conditions of the national economy and their personal financial situation are somewhat more powerful indicators than the objective economy. The SUBEC variable increases the power to the model slightly, with the adjusted-R<sup>2</sup> increasing from 0.87 to 0.89, i.e., 89 percent of the variation in Labour support is explained. More interesting is that the misery variable ceases to be statistically significant ( $t = 0.41$ ) in the presence of subjective economic evaluations. In other words, the effect of the index, which combined the objective macroeconomic measures of inflation and unemployment, becomes trivial in the face of the electorate's subjective economic judgments. Consonant with previous findings, this suggests that the subjective element is a mediating factor that translates

---

<sup>2</sup>The contemporaneous relationship between leader and party support is ambiguous with regard to the flow of causality. For evidence of lagged leader effects on party support, see the Box-Jenkins analyses by Clarke and Whiteley (1990). Based on this evidence, I model leader effects with a one-month lag.

economic well-being into party support. Without having this factor controlled, the inflation and unemployment measures will be its proxy. When the subjective elements are considered, however, the significance of the objective measures evaporates.

A comparison of trends in Labour popularity with the misery index and the subjective economic judgments bolsters the conclusion that these judgments are important (see Figure 6 and Figure 7). Starting from early 1980, Labour suffered a slide in its popularity as the misery index generally fell. The deterioration of the economy in 1981, however, did not occasion a rebound in Labour support. Throughout the period to the 1987 general election, the supposedly parallel relationship between the two was rarely evident. On the other hand, the subjective economic evaluations of the voters manifested a consistent inverse relationship with the Labour support. This was especially in the run-ups to the two general elections when the voters' subjective economic evaluations usually reached the pinnacle whereas Labour popularity plunged. Thus, while subjective economic evaluations proxy the impact of objective economic conditions, they have additional effects as well.

This conclusion is buttressed by analyses of another group of models, in which the subjective measures are the dependent variables (see Table 2). These analyses illustrate how the voters' judgments are constituted: the

misery index, or the well-being of the economy, has a significant negative effect on the combined subjective economic evaluation index ( $b = -6.80$ ;  $t = -3.54$ ), but the Falklands war is also statistically significant ( $b = 42.81$ ;  $t = 1.84$ ). These results indicate that objective macroeconomic measures, along with political factors, are the bases of voters' perceptions of the economy. The Falklands effect reveals how a political intervention can influence voters' economic judgments.

Additional analyses that break down the subjective economic variable into its temporal and national-personal dimensions yields a more detailed picture of the forces at work: while the misery index exhibits its negative significant impact on all of the four subjective economic variables, the political factor, namely, the Falklands effect, exerts an influence only on the electorate's evaluations of the national economy. In other words, the public forms its national economic judgments on both economic and political bases but confines evaluations of personal financial situation to economic factors.

Also noteworthy are the relationships among the four variables (see Table 3). As expected, the two sociotropic variables, namely, sociotropic prospective evaluations and sociotropic retrospective evaluations, are highly correlated with each other ( $r = .80$ ). This also holds for their egocentric counterparts ( $r = .77$ ). Likewise, voters'

retrospective judgments to the national economy are highly correlated with their egocentric expectations, suggesting that the public consults the macroeconomy in contemplating their personal economic futures.

An examination of the trends of the two sociotropic variables indicates a general pessimism regarding the past and future throughout much of the period under consideration (see Figure 8). Voters' prospective evaluations of the national economy behaved similarly with the retrospective judgments except that a 50-point gap existed between the two series from early 1980 to late 1981, suggesting that the electorate was not as optimistic in viewing the past as in expecting the future. The gap started to narrow from early 1982, when the two moved closer to each other and in the same direction. Note also that positive judgments about both the past and future reached their highest level in the run-ups to the 1983 and 1987 general elections, indicating an increase in economic optimism as the elections approached. Accompanying this surge is a drop in public support for the opposition labour party.

Similar patterns hold for the egocentric variables (see Figure 9). In terms of magnitudes, the public confined the evaluations of the past and the future of their personal financial situation in a smaller range (both of which vary by 38 points). In contrast to the extremely wide range of sociotropic retrospective evaluations (up to 96 points), the

voters seemed to down play their personal plight relative to the national economic malaise.

Comparing the subjective elements in dynamic perspective, voters are found to be more stable in evaluating their personal financial circumstances than the national economy, retrospective and prospective alike. Despite the similar direction, the sociotropic prospective evaluations, for instance, are susceptible to large changes between 1979 and 1987 (see Figure 10). The range of variation is 75 points, from a low of -48 in early 1981 to a high of +27 during the Falklands war. Note again the sign of the scores, which show the general pessimism in most of the time except the run-up to each general election.

These sharp changes in public expectations for the economy hint at the notion that the electorate's judgment is subject to intervening short-term forces. One of the factors contributing to this boost may be a political business cycle produced by government intervention in the economy (see Clarke and Whiteley 1990).

These findings are echoed in the analysis of trends in retrospective evaluations. The only difference is the voters are generally disappointed with both the economy and personal financial situation in retrospect, as the evaluations are basically always negative (see Figure 11). Also, in accordance with the findings presented above, they exhibit increasing optimism only in a short period of time



surrounding general elections. In general then, an examination of trends in subjective economic evaluations reveals their strong associations with the popularity of the ruling party and an opposition party like Labour. Regardless of the extent of disappointment among the electorate, the government managed in each general election to instill optimism among the voters when it mattered most, i.e., when a general election was forthcoming (see Figure 12).

Returning to the models (see Table 1), all four subjective economic measures, namely, egocentric retrospective evaluations, egocentric prospective evaluations, sociotropic retrospective evaluations and sociotropic prospective evaluations, have significant effects on Labour support. On the other side of the ledger, these models again illustrate the limited power of the objective element in explaining the party support once subjective factors are controlled.

Finally, to assess the relationship between leader satisfaction and the economic factors, another group of models using the former variable as the dependent variable are considered. An examination of the first model in Table 4 demonstrates the limited impact of the objective economy on how the voters rate the party leaders. It is not until the subjective variables are included in the model that the picture is clarified. The combined subjective evaluation

variable and all of its four components except the egocentric prospective evaluations have significant effects on public support for the party leaders. This suggests that voters base their judgments of party leaders, in part at least, on their subjective economic evaluations. Most noteworthy are the egocentric retrospective evaluations, which, *ceteris paribus*, produce as much as 12 point difference in leader ratings<sup>3</sup>

Additional analyses of the models in which the dependent variable, leader satisfaction, is split into: 1) satisfaction with the prime minister and 2) satisfaction with the major opposition leader, provide further details about these relationships (see Table 5). While the misery index has a fairly small influence on the leader popularity, the combined subjective economic judgment variable produces significant impact on government leader performance evaluations. This influence, as models PMSAT A to E in Table 5 show, stems from voters' evaluations of the national economy. In other words, the electorate ascribes responsibility to the prime minister for the state of the economy, which is supposedly a consequence of his or her management. As the aforementioned reward-punishment model argues, this responsibility attribution does not happen to the opposition leader who is not deemed responsible for the

---

<sup>3</sup>This is estimated by multiplying the parameter, 0.33, by the range of the variable's value, which is from -3 to -41.

management of the economy. This is evidenced by the findings that barely any significant results are obtained from the subjective variables in the OPSAT models.<sup>4</sup> Apart from the economic variables, the leader support models also provide evidence that other factors also produce significant effects on the party leaders' popularity. For the Tory leader, for instance, the Falklands war was an obvious asset, which helped Mrs. Thatcher to gain as much as a 7.6 point increment in popularity. For Mr. Michael Foot, the then Labour party leader, the two-month conflict in South Atlantic cost him almost 9 points in his standings. However, this did not matter a great deal since his leadership generally had a very strong negative impact on voters; relative satisfaction with the party leaders. This point is manifest in the OPSAT models in which a dummy variable, FOOT, is added to represent the leadership of Mr. Foot.<sup>5</sup> His replacement, Mr. Kinnock, as the model suggests, produces an approximately 22 point gain in the Labour leaders' ratings.

Another notable finding is that political events, which are supposed to be directly associated with party support,

---

<sup>4</sup>The misery index, which has statistical significance in some models, may be the proxy for some other uncontrolled variables in this case. Given its inconsistency in similar models, this does not necessarily imply that it has any significant impact on the dependent variable.

<sup>5</sup>The variable is coded as 1 from the period between October 1980 and September 1983, during which Mr. Foot was elected the Labour leader; other months are coded 0.

have significant effects on the popularity of the government leader. These events, nevertheless, do not have a significant impact on support for the Labour leader, suggesting that the occurrence of political events contributing to party support may not necessarily affect the popularity of party leaders.

Table 3.1 OLS time series analysis of Labour party support, June 1979 - June 1987

Predictor Variables	Model A		Model B		Model C		Model D		Model E		Model F		Model G	
	b	0.41a	b	0.39a	b	0.05	b	0.15	b	0.12	b	0.07	b	0.28a
Misery index	-	-	-	-	-	-0.03a	-	-	-	-	-	-	-	-
Subjective economic evaluation	-	-	-	-	-	-	-0.12a	-	-	-	-	-	-	-
Egocentric retrospective	-	-	-	-	-	-	-	-	-	-0.13a	-	-	-	-
Egocentric prospective	-	-	-	-	-	-	-	-	-	-	-0.07a	-	-	-
Sociotropic retrospective	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sociotropic prospective	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Alliance	-0.45a	-	-0.47a	-	-	-0.50a	-0.51a	-	-0.48a	-	-0.49a	-	-0.05b	-0.48a
Falklands	-6.79a	-	-7.13a	-	-	-5.65a	-7.57a	-	-6.44a	-	-5.12a	-	-0.48a	-6.30a
Honey	-4.53a	-	-5.16a	-	-	-4.41a	-4.81a	-	-4.81a	-	-4.26a	-	-0.48a	-4.87a
Political event-Labour	3.13a	-	3.30a	-	-	3.24a	3.28a	-	3.26a	-	3.38a	-	3.18a	3.18a
Leader	-0.15a	-	-0.13a	-	-	-0.12a	-0.14a	-	-0.13a	-	-0.13a	-	-0.11a	-0.11a
AR(1)	-	-	0.27a	-	-	0.26a	0.24a	-	0.25a	-	0.21a	-	0.31a	0.31a
Constant	23.96a	-	41.01a	-	-	46.08a	44.61a	-	46.21a	-	45.07a	-	42.65a	42.65a
Adjusted R <sup>2</sup>	0.88	-	0.88	-	-	0.90	0.88	-	0.89	-	0.90	-	0.89	0.89
Durbin-Watson DW	1.57	-	2.05	-	-	1.99	2.01	-	2.00	-	1.98	-	2.05	2.05

a p ≤ 0.01

b p ≤ 0.05 ; one-tailed tests

**Table 3.2 OLS time series analysis of Subjective Economic Evaluations, June 1979 - June 1987**

Predictor Variables	Subec	Egoret	Egofut	Socioret	Sociofut
Misery index	-6.80a	-0.68b	-1.77a	-1.06	-1.84a
Falklands	42.81b	0.12	4.54	23.85a	17.31a
AR(1)	0.67a	0.85a	0.44a	0.82a	0.57a
Constant	61.65b	-5.99	31.32a	-15.57	24.89a
Adjusted R <sup>2</sup>	0.74	0.79	0.70	0.73	0.58
Durbin-Watson DW	2.05	2.43	1.82	2.21	2.08

a p ≤ 0.01

b p ≤ 0.05 ; one-tailed tests

Table 3.3 Bivariate Correlations between Prospective and Retrospective Economic Evaluations

	Sociotropic Prospective Evaluations	Egocentric Prospective Evaluations
Sociotropic Retrospective Evaluations	.80	.82
Egocentric Retrospective Evaluations	.28	.77

Table 3.4 OLS time series analysis of Leaders' Satisfaction, June 1979 - June 1987

Predictor Variables	Leader					
	A	B	C	D	E	F
Misery index	-0.07	0.18	0.22	0.01	0.06	0.11
Subjective economic evaluation	-	0.07b	-	-	-	-
Egocentric retrospective	-	-	0.33b	-	-	-
Egocentric prospective	-	-	-	0.14	-	-
Sociotropic retrospective	-	-	-	-	0.12b	-
Sociotropic prospective	-	-	-	-	-	0.22a
Alliance	0.27	0.39b	0.34b	0.32	0.33	0.40b
Honey	7.00	7.40	6.38	6.81	7.69	7.96
Political events-Labour	-3.84a	-3.76a	-3.80a	-3.68a	-4.10a	-3.40b
Falklands	18.01a	15.52b	17.66a	17.42b	15.55b	16.78b
AR(1)	0.82a	0.82a	0.84a	0.82a	0.81a	0.79a
Constant	-1.55	-4.28	-2.18	-3.88	-1.06	-6.45
Adjusted R <sup>2</sup>	0.76	0.77	0.77	0.76	0.77	0.78
Durbin-Watson DW	2.25	2.19	2.27	2.24	2.22	2.14

a  $p \leq 0.01$ b  $p \leq 0.05$  ; one-tailed tests



**Table 3.5 OLS time series analysis of Voters' Satisfaction towards Party Leaders, June 1979 - June 1987**

Predictor Variables	PMSAT*					PMSAT**					OPSAT				
	A	B	C	D	E	A	B	C	D	E	A	B	C	D	E
Misery index	0.18	0.14	0.14	0.14	0.18	0.44	0.35	0.62b	0.57b	0.58b					
Subjective economic evaluation	0.04a	-	-	-	-	-0.03	-	-	-	-					
Egocentric retrospective	-	0.01	-	-	-	-	-0.25b	-	-	-					
Egocentric prospective	-	-	0.08	-	-	-	-	-0.09	-	-					
Sociotropic retrospective	-	-	-	0.08a	-	-	-	-	-0.05	-					
Sociotropic prospective	-	-	-	-	0.09a	-	-	-	-	-0.08					
Alliance	-0.15b	-0.20a	-0.18b	-0.17b	-0.14b	-0.50a	-0.54a	-0.48a	-0.49a	-0.49a					
Political event-Labour	-2.61a	-2.63a	-2.55a	-2.82a	-2.44a	1.02	0.84	0.99	1.15	0.92					
Falklands War	6.61b	7.62a	7.41a	6.15b	6.96a	-6.76	-8.87b	-7.86b	-6.86	-7.22b					
Foot	-	-	-	-	-	-20.85a	-22.28a	-21.04a	-20.92a	-19.97a					
AR(1)	0.86a	0.87a	0.87a	0.85a	0.88a	0.41a	0.46a	0.41a	0.41a	0.40a					
Constant	41.52a	41.69a	40.94a	43.32a	39.78a	44.87a	45.48a	43.07a	42.49a	43.06a					
Adjusted R <sup>2</sup>	0.83	0.82	0.82	0.83	0.83	0.86	0.86	0.86	0.86	0.86					
Durbin-Watson DW	2.34	2.31	2.34	2.31	2.26	2.00	2.05	2.02	2.02	2.00					

\* - Satisfaction with the Prime Minister

\*\* - Satisfaction with the Opposition (Labour) Leader

a  $p \leq 0.01$

b  $p \leq 0.05$  ; one-tailed tests

FIGURE 3.1 LABOUR POPULARITY AND MISERY INDEX, 1979-1987

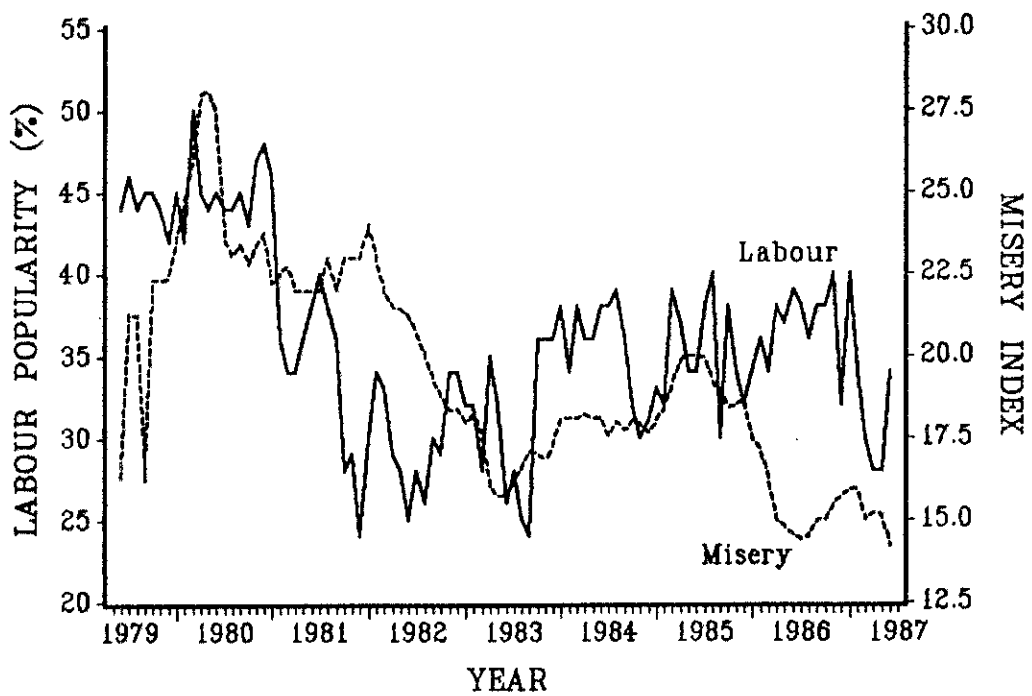


FIGURE 3.2 SUBJECTIVE ECONOMIC EVALUATIONS AND LABOUR POPULARITY, 1979-1987

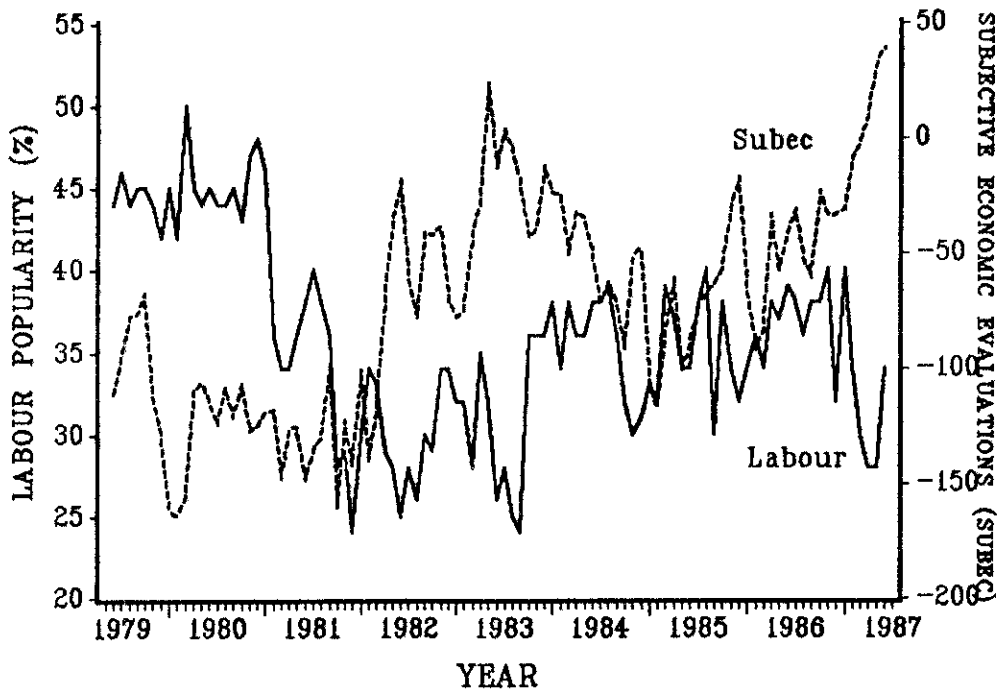


FIGURE 3.3 SOCIOTROPIC ECONOMIC EVALUATIONS, 1979-1987

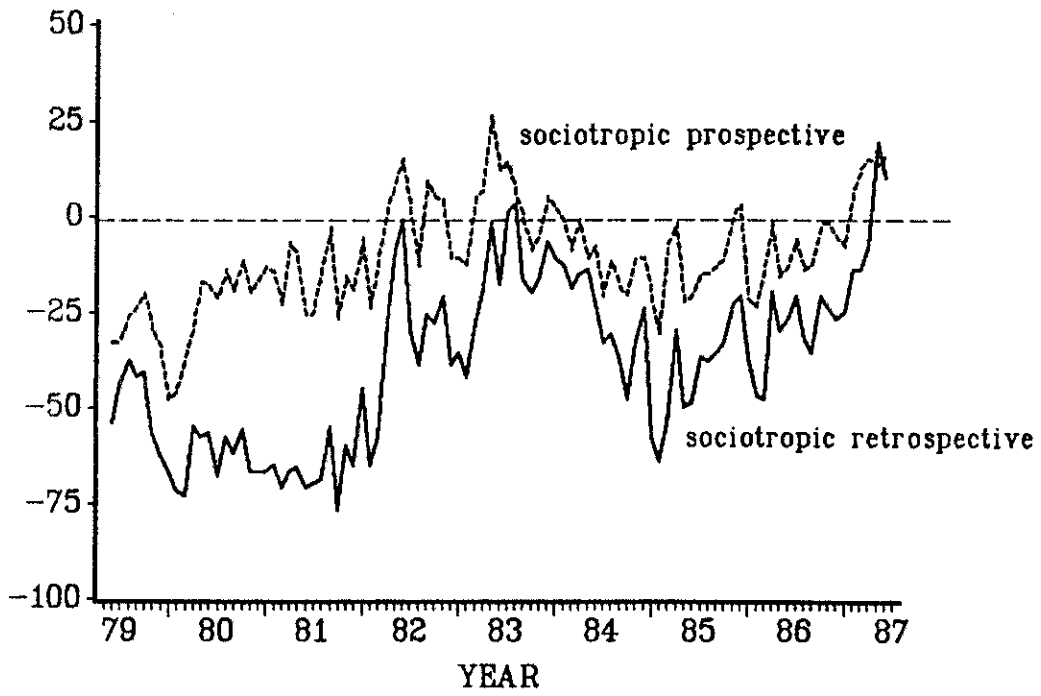


FIGURE 3.4 EGOCENTRIC ECONOMIC EVALUATIONS, 1979-1987

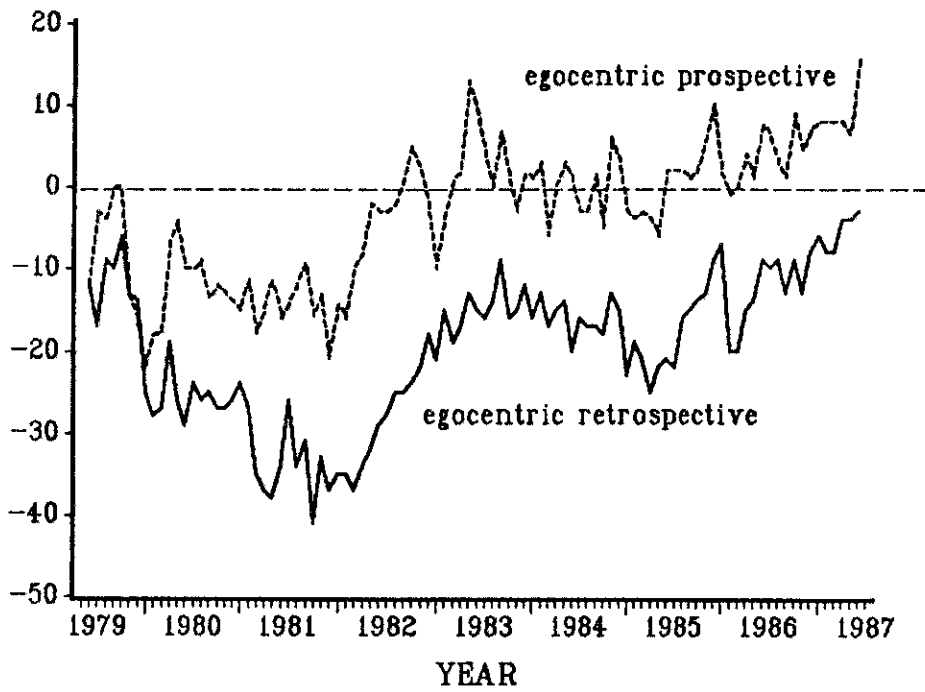
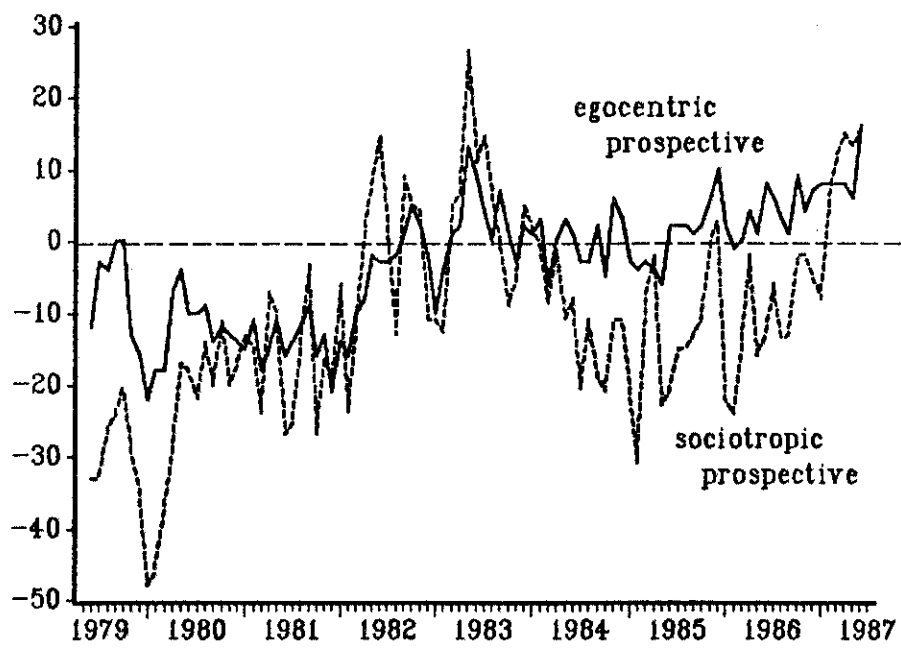


FIGURE 3.5 PROSPECTIVE ECONOMIC EVALUATIONS, 1979-1987



**Figure 9.** Total number of checks correctly processed per session for Subject 9.

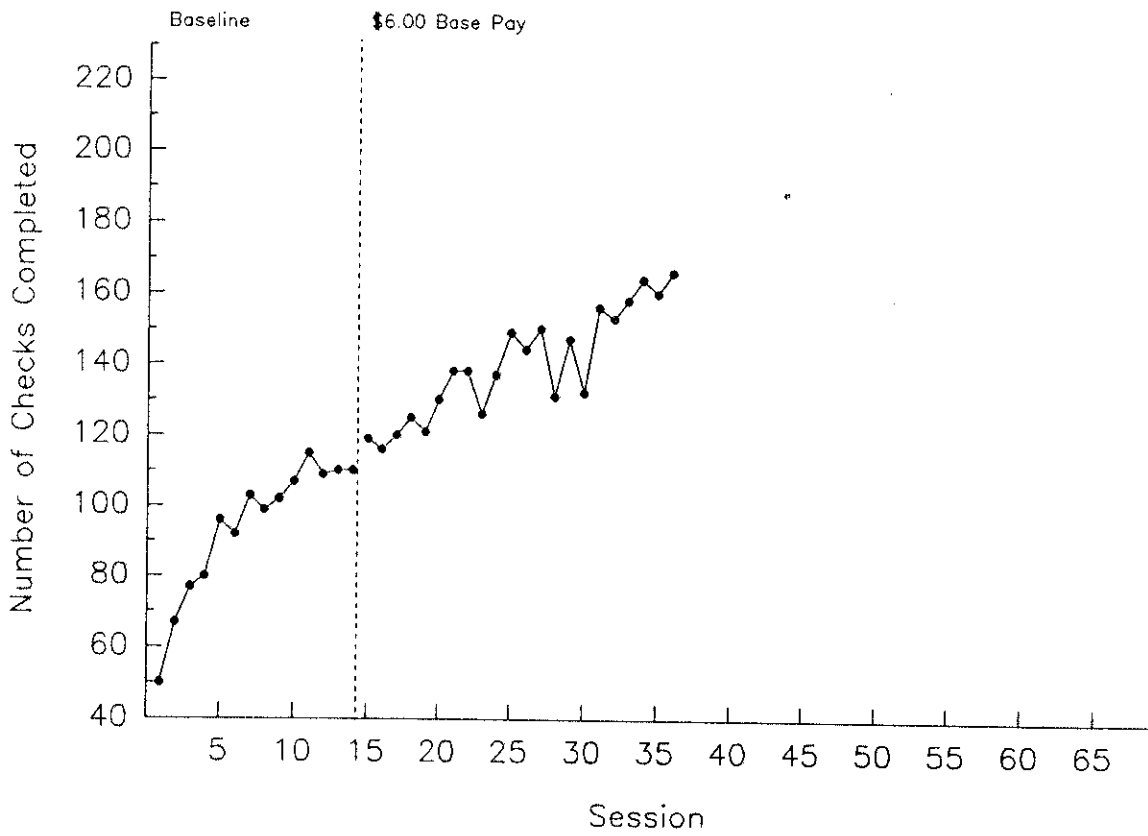
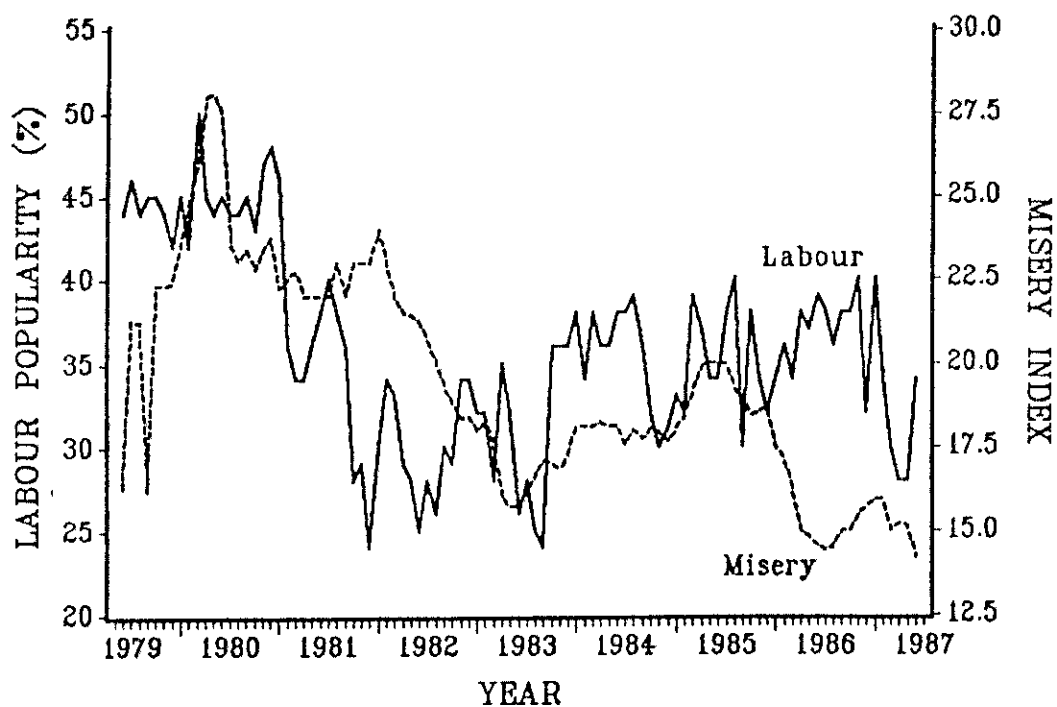


FIGURE 3.7 LABOUR POPULARITY AND MISERY INDEX, 1979-1987





## CHAPTER IV

### CONCLUSION: THE DUOPOLY OF ECONOMICS AND POLITICS

During the past two decades, extensive research efforts have focused on the conventional wisdom that the economy has a direct influence on a party's destiny. This hypothesis rests on the implicit assumption that the linkages between macroeconomic variables such as inflation and unemployment and party support is direct and unmediated. As the present study indicates, however, the objective economic measures only serve as a proxy for the invisible force that drives voters' party support. Once the relevant variables, namely, the perceptual factors of the electorate, are employed, variables that describe the state of the objective economy fail to exert their "magic" on political behavior.

Recent studies incorporating perceptual factors into political analyses have appealed to the hypothesis that the data obtained by the public and the way this information is processed have decisive effects on political behavior (Clarke et al. 1992). As elucidated earlier, previous investigations of the relationship between the macroeconomy and political behavior have been guided by the supposed direct linkage between the former and economic perceptions, and as well as those between perceptions and behavior.

However, as Clarke et al. conclude, "if either set of linkage is weak, mediated by intervening variables or contingent upon exogenous ones, the use of objective economic indicators as surrogates for economic perceptions and expectations can produce inconsistent and contradictory results across different studies" (Clarke et al. 1992). The conclusion is bolstered by the findings in the present study which reveals the weakness of the objective economy in accounting for party support when the subjective economic evaluation variables are controlled.

Theoretically, these findings accord well with earlier studies regarding the decision making process of the electorate. In focusing on voters' cognition of economic information, Alt and Chrystal (1983) have emphasized the link between political decisions and evaluations of economic conditions and, more importantly, the way the electorate processes information. Recalling the political support model in Figure 1, the economic information provided by the macroeconomic measures only serves as an input to the perceptual processes of the voters, while the output is subject to numerous intervening factors.

Among these variables are the availability and distribution of information, which is rarely perfect. The public is unable to obtain directly a comprehensive and exhaustive package of economic information on which an unbiased judgment to the economy could be made. The

information available to various kind of distortions, either by intentional manipulation or misleading interpretation by the press (Mosley 1984). The memory of the general public is another reason contributing to the failure of economic conditions to be translated directly into political behavior. As Alt and Chrystal (1983) postulate, public opinions will not be displaced due to contemporaneous new information until after repeated exposure or until a certain period of time elapses.

Moreover, public perceptions of the economy are not confined to the influence of the economy. As the present study indicates, the subjective economic evaluations are open to the impact of noneconomic factors. The most salient example is the Falklands war which exerts a large influence on the voters' economic perceptions. Consonant with previous findings (Sanders et al.; Clarke et al. 1990), Britain's victory in this war injected an optimistic element into public perceptions of the economy, particularly with regard to in the electorate's evaluations and expectations of the national economy, and the government's capacity to manage it effectively. These two factors helped boost public confidence in the governing party and, thereby, negatively influenced support for the opposition Labour party.

The significant results of the four component variables of subjective economic evaluations on party support

illustrated in the analyses also help resolve the longstanding controversy centered on the explanatory power of the four variables. Previous studies have been inclined to emphasize the voters' sociotropic or national evaluations in explaining party support. However, as this study has shown, judgments about personal financial circumstances, prospective and retrospective alike, also matter. Another path by which the economy exerts its influence on political support is through the party leaders. As this analysis has revealed, the explanatory power of the subjective economic variables is evident in voters' ratings of the party leaders, and these ratings, in turn, contribute to party popularity. In this regard, voters seem to reward and punish the prime minister for economic conditions but rarely do the same to the opposition leader.

Taken together, the study renders a better picture of the several causal paths among economic conditions, economic perceptions, political events and party support. A general model of these linkages is presented in Figure 4.1.

Throughout the period between Mrs. Thatcher's first victory (May 1979) and her second conservative reelection (June 1987), the British economy suffered from first soaring inflation and then massive unemployment. During Mrs. Thatcher's first government (1979-1983), inflation soared to 22 percent (June 1980) only one year after the 1979 general election. Joblessness then plagued the country, leaving

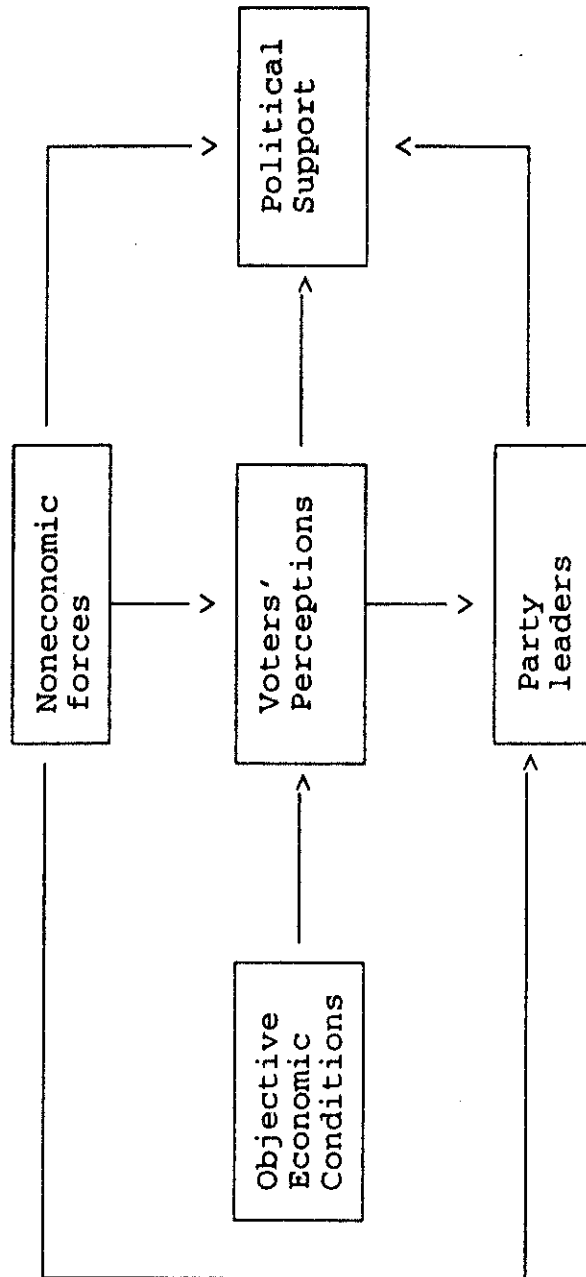
more than 3 million workers unemployed at one time (February 1983). This economic malaise, however, did not translate automatically into the support for the principal opposition party, Labour. In almost the same period of time Labour was troubled by a multi-faceted predicament: the surge of a second rival, fierce internecine disputes, and an unexpected war with a latin American country. The period also witnessed the party slide to a record low level of both the parliamentary seats (209 out of 650) and voting turnout (28 percent) (Butler and Kavanagh 1988).

During this period, then, the party's popularity was subject to the three political intervening factors. The rise of the Alliance, which threatened to provide an alternative to the party's place as the major opposition, made room for the voters not only to "park their votes" as a safe protest to the ruling Tories (Clarke et al. 1992), but also to express their dissatisfaction with Labour. This was reflected by the inverse trend in the electorate's support for the two parties--whenever the Labour lost public confidence, the Alliance capitalized and its support surged. Second, the Falklands war, which precipitated a boost in public confidence for the governing Conservatives, caused Labour a considerable drop in popularity in 1982. This outright liability to Labour fortune along with the rise of an opposition rival almost deprived the party of its position as the principal opposition party. Finally, the

intraparty disputes between the moderate and the extreme left within the party and the widespread distrust of Mr. Michael Foot's leadership intensified Labour's hardship at a time when it already had been suffering from the loss of long-term partisan allegiance because of a declining traditional working class (Butler and Kavanagh 1984).

These three factors, which seem to account for the party's inability to unseat the governing Conservative government, only document the first part of the story. Given the economic malaise which saw both inflation and unemployment soar, the supposedly favorable circumstance for the major opposition party, however, were offset by political interventions and, more significantly, by perceptual factors than dampened the translation of economic adversity to rejuvenate the party with centrist reforms, were beyond Labour's control as an opposition party.

Figure 4.1 Revised Model of Political Support as a Function of Economic Perceptions, Noneconomic Forces, Party Leaders' Image and Objective Economic Conditions



APPENDIX A  
POLITICAL EVENTS THAT AFFECT LABOUR SUPPORT



## APPENDIX A

## Political Events That Affect Labour Support

<u>Year</u>	<u>Value</u>	<u>Labevent</u>
1980.10	-1	Callaghan retires as Labour Leader
1981.02	-1	Council for Social Democracy announced; SDP launched on
1982.11	1	Labour wins Northfield by-election
1983.03	-1	Liberals win Bermondsey by-election
1983.04	1	Labour hold seat in Darlington by- election
1983.12	1	Cruise missiles installed; sparks mass protests
1984.10	-1	Conservative Conference hotel at Brighton blown up by IRA. Five killed
1984.11	-1	Br. Telecom privatized - shares four times oversubscribed
1985.07	1	"Top peoples" pay increase of up to 48 % provokes Conservative revolt
1985.08	1	TUC-Labour party document <i>A New Partnership - A New Britain</i>
1985.10	1	Kinnock attacks Militant members of Liverpool Council, and black sections at Lab. Conference
1986.01	1	Michael Heseltine resigns over Westlands affair
1986.02	1	L. Brittan resigns over Westlands affair
1986.04	1	British bases used for U.S. bombing of Libya
1986.07	1	Labour narrowly retain Newcastle-under- Lyme in by-election
1986.12	-1	British Gas share sale oversubscribed
1987.02	-1	Relaunch of SDP/Liberal Alliance
1987.03	-1	SDP wins Greenwich by-election;pre- election budget
1987.04	-1	Mrs. Thatcher visits Moscow; Neil Kinnock visits Washington

**APPENDIX B**  
**AUTOCORRELATION**

## APPENDIX B

An autocorrelation problem will lead to an underestimation of the coefficient variances and thus an inflation to the t-ratios even if the estimates appear reliable (owing to the small variance) as shown in **Table B.1**.

Table B.1 Identification of serial correlations problem

VARIABLE	COEFFICIENT	STD. ERROR	T-STAT.	2-TAIL SIG.
C	40.394386	1.6861363	23.956773 *	0.000
MISERY	0.4061057	0.0701652	5.7878460 *	0.000
ALX	-0.4521525	0.0305237	-14.813148 *	0.000
FALK	-6.7880768	1.4106875	-4.8118927 *	0.000
LABEVENT	3.1338906	0.5002406	6.2647671 *	0.000
LEADER (-1)	-0.1518774	0.0172774	-8.7905065 *	0.000
HONEY	-4.5289300	1.6037482	-2.8239657 *	0.006
R-squared	0.879674	Mean of dependent var	35.81250	
Adjusted R-squared	0.871562	S.D. of dependent var	6.016316	
S.E. of regression	2.156139	Sum of squared resid	413.7554	
Durbin-Watson stat	1.573767	F-statistic	108.4431	
Log likelihood	-206.3426			

The t-ratios are inflated as a result of the deflated standard errors. This leads to an incorrect inference regarding the significance of a regressor's effect on the dependent variable.

This is the consequence of a non-zero covariance among the disturbance terms. In other words, the error terms are not independent of each other from time to time and leaving their "effect linger for some time after its occurrence" (Kmenta 1986). This is evident in most time series models in which the disturbance term is related to its immediately preceding, that is, each disturbance is equal to a portion of the preceding disturbance plus a random variable. This is termed as the first order autocorrelation. This can be modeled as:

$$e_t = \rho e_{t-1} + v_t$$

where  $e_t$  is the error term at time  $t$ ,  $\rho$  is the regression coefficient and  $v_t$  signifies an error term to  $e_{t-1}$  with zero mean, constant variance and zero correlations for all  $v_t, v_{t-i}$  where  $i \geq 1$ . The violation of these assumptions indicates the presence of higher order time series dependencies (Ostrom 1990). I employ the Cochrane-Orcutt method which is the default in TSP for dealing with first order autocorrelation problem. The method simply transforms the data by repeatedly applying OLS and constructing new variables until values of the estimate of  $\rho$  converges.

The result for the model shown in Table B.1 is as follows:

Table B.2 Serial Correlation Problem Corrected

VARIABLE	COEFFICIENT	STD. ERROR	T-STAT.	2-TAIL SIG.
C	41.012458	2.1260711	19.290257 *	0.000
MISERY	0.3922672	0.0902439	4.3467463 *	0.000
FALK	-7.1329949	1.6709865	-4.2687327 *	0.000
ALX	-0.4693244	0.0380527	-12.333532 *	0.000
LABEVENT	3.3002166	0.5050226	6.5347894 *	0.000
LEADER(-1)	-0.1294268	0.0222085	-5.8278108 *	0.000
HONEY	-5.1567698	1.9669120	-2.6217593 *	0.011
AR(1)	0.2703358	0.1108374	2.4390310 *	0.017
R-squared	0.883452	Mean of dependent var	35.70526	
Adjusted R-squared	0.874074	S.D. of dependent var	5.955283	
S.E. of regression	2.113293	Sum of squared resid	388.5425	
Durbin-Watson stat	2.045054	F-statistic	94.21026	
Log likelihood	-201.7041			

## REFERENCES

- Alt, James E. 1979. *The Politics of Economic Decline: Economic management and political behaviour in Britain since 1964*. Cambridge: Cambridge University Press.
- Alt, James E. and K. Alec Chrystal. 1983. *Political Economics*. Berkeley: University of California Press.
- Alt, James E. and Kenneth A. Shepsle. 1990. *Perspective on Positive Political Economy*. Cambridge: Cambridge University Press.
- Bacon, Robert and Walter Eltis. 1978. *Britain's Economic Problem: Too Few Producers*. London: Macmillan.
- Bowerman, Bruce and Richard T. O'Connell. 1987. *Time Series Forecasting*. Boston: Duxbury Press.
- Bradley, Ian. 1981. *Breaking the Mould ?* Oxford: Martin Robertson.
- Britton, Andrew, eds. 1983. *Employment, Output and Inflation: The National Institute Model of the British Economy*. London: Heinemann.
- Budge, Ian and Dennis J. Farlie. 1983. *Explaining and Predicting Elections: Issue Effects and Party Strategies in Twenty-Three Democracies*. London: George Allen & Unwin.
- Butler, David and Donald Stokes. 1969. *Political Change in Britain: Forces Shaping Electoral Choice*. New York: St. Martin's Press.
- Butler, D. and Kavanagh, D. 1984. *The British General Election of 1983*. New York: St. Martin's Press.
- . 1988. *The British General Election of 1987*. New York: St. Martin's Press.
- Butler, D. 1989. *British General Elections since 1945*. Oxford: Basil Blackwell.
- Butler, David and Donald Stokes. 1969. *Political Change in Britain: Forces Shaping Electoral Choice*. New York: St. Martin's Press.

- Butler, D. and Stokes D. 1969. *Political Change in Britain*, 2nd ed. New York: St. Martin's Press.
- Chappell, Henry W. Jr. and William R. Keech. 1985. "A New View of Political Accountability for Economic Performance." *American Political Science Review* 79:10-27.
- Chrystal, K.A. and James Alt. 1981. "Some Problems in Formulating and Testing a Politico-Economic model of the United Kingdom." *Economic Journal* 91:730-36.
- Clarke, Harold D., Marianne C. Stewart and Gary Zuk. 1986. "Politics, Economics, and Party Popularity in Britain, 1979-83." *Electoral Studies* 5:123-41.
- and Gary Zuk. 1989. "The Dynamics of Third-Party Support: The British Liberals, 1951-79." *American Journal of Political Science* 33:197-221.
- and Paul Whiteley. 1990. 'Perceptions of macroeconomic performance, government support and Conservative Party strategy in Britain 1983-1987.' *European Journal of Political Research* 18:97-120.
- William Mishler and Paul Whiteley. 1990. "Recapturing the Falklands: Models of Conservative Popularity, 1979-83." *British Journal of Political Science* 20:63-81.
- Euel W. Elliott, William Mishler, Marianne C. Stewart, Paul Whiteley and Gary Zuk. 1992. *Controversies in Political Economy: Canada, Great Britain, and the United States*. Pittsburgh: University of Pittsburgh Press.
- Craig, F.W.S. ed. 1989. *British Electoral Facts 1832-1987*. Dartmouth, U.K.: Parliamentary Research Services.
- Crewe, I. 1986. 'On the Death and Resurrection of Class Voting: Some Comments on How Britain Votes.' *Political Studies* 34:620-638.
- David, Wilfred L. 1988. *Political Economy of Economic Policy: The Quest For Human Betterment*. New York: Praeger.
- Drucker, Henry M. 1979. *Doctrine and Ethos in the Labour Party*. London: George Allen & Unwin.
- Eulau, Heinz, and Lewis-Beck, Michael S. ed. 1985. *Economic Conditions and Electoral Outcomes: The United States and*

- Western Europe*. New York: Agathon Press.
- Forester, Tom. 1976. *The British Labour Party and the Working Class*. New York: Holmes & Meier Publishers.
- Frey, Bruno S. 1983. *Democratic Economic Policy: A Theoretical Introduction*. New York: St. Martin's Press.
- and Garbers, Hermann. 1971. "'Politico-Econometrics' -On Estimation in Political Economy." *Political Studies* 19:316-20.
- and F. Schneider. 1978. "A Politico-Economic Model of the United Kingdom." *Economic Journal* 91:737-40.
- Goodhart, C.A. and Bhansali. R.J. 1970. "Political Economy." *Political Studies* 18:43-106.
- Heath, A., Jowell, R. and J. Curtice. 1987. 'Trendless Fluctuation: A Reply to Crewe.' *Political Studies* 35:256-277.
- Heath, Anthony, Roger Jowell and John Curtice. 1985. *How Britain Votes*. Oxford: Pergamon Press.
- Hibbs, Douglas A. 1982. 'Economic Outcomes and Political Support for British Governments Among Occupational Classes: A Dynamic Analysis.' *American Political Science Review* 76:259-279.
- . 1987. *The Political Economy of Industrial Democracies*. Cambridge, Massachusetts: Harvard University Press.
- Himmelweit, Hilde T. Humphreys, Patrick Jaeger, and Michael Katz. 1981. *How Voters Decide*. London: Academic Press.
- Holmes, Martin. 1982. *Political Pressure and Economic Policy: British Government 1970-1974*. London: Butterworth Scientific.
- Holmes, Martin. 1985. *The Labour Government, 1974-79*. New York: St. Martin's Press.
- Hudson, John. 1984. "Prime Minister Popularity in the UK: 1960-81." *Political Studies* 32:86-97.
- Johnson, Janet Buttolph and Richard A. Joslyn. 1991. *Political Science Research Methods, 2nd ed.* Washington, D.C.: Congressional Quarterly Press.

- Kavanagh, Dennis. 1982. *The Politics of the Labour Party*. London: George Allen & Unwin.
- Key, V. O. Jr. 1966. *The Responsible Electorate*. New York: Vintage Books.
- Kiewiet, Roderick D. 1983. *Macro-economics and Micro-politics: The Electoral Effects of Economic Issues*. Chicago and London: The University of Chicago Press.
- Lewis-Beck, Michael S. 1990. *Economics and Elections: The Major Western Democracies*. Ann Arbor: The University of Michigan Press.
- MacRae C.D. 1977. "A Political Model of the Business Cycle." *Journal of Political Economy* 85:239-63.
- Maunder, W. P. J. eds. 1980. *The British Economy in the 1970s*. London: Heinemann.
- Miller, William J. and M. Mackie. 1973. "The Electoral Cycle and the Asymmetry of Government and Opposition Popularity: an Alternative Model of the relationship between Economic and Political Popularity." *Political Studies* 21:263-79.
- , Harold Clarke, Martin Harrop, Lawrence LeDuc and Paul F. Whiteley. 1990. *How Voters Change: The 1987 British Election Campaign in Perspective*. Oxford: Clarendon Press.
- Minkin, Lewis. 1980. *The Labour Party Conference*. Manchester: Manchester University Press.
- Morris, Derek, eds. 1977. *The Economic System in the U.K.* Oxford: Oxford University Press.
- Nordhaus, William D. 1975. "The Political Business Cycle" *Review of Economic Studies* 42:169-90.
- Norpoth, Helmut. 1987. "Guns and Butter and Government Popularity in Britain." *American Political Science Review* 81:949-959.
- Panitch, Leo. 1986. *Working-Class Politics in Crisis*. London: Verso.
- Penniman, Howard R. eds. 1981. *Britain at the Polls, 1979: A Study of the General Election*. Washington: American Enterprise Institute for Public Policy Research.



- Ranney, Austin, eds. 1985. *Britain at the Polls, 1983*. Duke University Press.
- Renaud, Paul S.A. 1989. *Applied Political Economic Modelling*. Berlin: Springer-Verlag.
- Sanders, David, Hugh Ward and David Marsh. 1987. "Government Popularity and the Falklands War: A Reassessment." *British Journal of Political Science* 17:281-314.
- Sårilvik, Bo and Ivor Crewe. 1983. *Decade of dealignment: The Conservative victory of 1979 and electoral trends in the 1970s*. Cambridge: Cambridge University Press.
- Tufte, Edward R. 1978. *Political Control of the Economy*. Princeton, New Jersey: Princeton University Press.
- Vig Norman J. and Schier Steven E. 1985. *Political Economy in Western Democracies*. New York: Holmes & Meier.
- Warde, Alan. 1982. *Consensus and beyond*. Manchester: Manchester University Press.
- Whiteley, Paul. 1980. *Models of Political Economy*. London and Beverly Hills: Sage.
- . 1983. *The Labour Party in Crisis*. London: Methuen.
- . 1986. *Political Control of Macroeconomy*. London and Beverly Hills: Sage.
- . 1986. "Macroeconomic performance and government popularity in Britain: the short run dynamics." *European Journal of Political Research* 14:45-61.
- Willetts, Thomas D. eds. 1988. *Political Business Cycle: The Political Economy of Money, Inflation, and Unemployment*. Durham and London: Duke University Press.