Introduction

- The traditional literature on economic voting shows that the re-election prospects of incumbent governments depend on economic performance during election years (Lewis-Beck, 1988). More recently, some attempts have been made to examine the rationality of electoral choice in democratic countries, and the degree to which voters adequately understand and attribute responsibility for the economic policies pursued by their elected officials.

- Healy and Malhotra (2009) demonstrate that voters reward the incumbent presidential party for pursuing visibly beneficial policies (i.e. disaster relief), but are unaffected by less obvious, structurally beneficial policies (disaster prevention).

- Wolfran (2007) shows that American voters in oil-producing states are more likely to reject their governors when oil prices are high, and are similarly likely to vote them out of office when oil prices are low.

- Other research suggests that the electoral consequences of retrospective voting depend on the unique political and economic context of the election in question (Powell and Whitman, 1993; Rudolph, 2003).

- These papers suggest that voters make attribute errors in a systematic way, and yet they do not attempt to measure the extent of attribution error.

- We contribute to this literature by measuring, through an instrumental variables (IV) approach, voter response to two types of changes in economic performance:

  - General change in economic performance that could be attributed to domestic economic policies or some other shocks outside of the government’s control.
  - Exogenous change in economic performance induced by trade shocks which are outside the government’s control.

- We find that voters respond to these two types of shocks in a quantitatively similar fashion, suggesting that the size of the attribution error is quite large.

Data

- Our main data source is the World Bank Database of Political Indicators 1975-1980. Following Alesina et al. 2010, we construct various measures of government turnover to use as our dependent variables:

  PMICH: a change in the chief executive

  IDEOCH: a change in the ideology of the cabinet

  ALLCH: either a change in the cabinet ideology or chief executive

  We restrict our observations to election years, and differentiate between countries with parliamentary versus presidential governments.

- We use annual GDP growth data from the World Development Indicators as our primary independent variable.

- We look for variation among high and low income countries, using current and historical countrywide income level classifications from the World Bank.

- We restrict our analysis to the years following the end of the Cold War (1990-2009); because our instrumental variable is export-based, this period provides the most accurate and expansive coverage.

Methodology

- We restrict our regressions to election years, using executive election data from presidential countries and legislative election data from parliamentary countries.

- To quantify the relationship between government turnover and economic growth, we modify a model for CEO compensation that accounts for the impact of luck (i.e. growth across the entire economy) on firm performance (Bertrand and Mullainathan, 2001).

- In our model, “luck” comprises exogenous economic shocks, unlinked to a government’s economic policies, that contribute to GDP growth.

- We estimate the effect of GDP change on government turnover using both OLS and an IV approach, which allows us to differentiate between the effects of domestic policy and the impact of prevailing global economic conditions on GDP growth.

- For IV, we construct an Export Weighted Growth Predictor Index. We look specifically at the change following the end of the Cold War, at which point the global economy began to experience rapid trade integration.

\[
\delta_g = \beta \cdot \alpha_t + \gamma_t + \chi_t + \alpha \cdot X_t + \varepsilon_t
\]  

\[
\delta_g = \beta \cdot \alpha_t + \gamma_t + \chi_t + \alpha \cdot X_t + \varepsilon_t
\]  

- \( \gamma_t \) is a dichotomous variable that takes on the value 1 when there is a government turnover (as defined above).

- Our main independent variable is \( \delta_g \) or GDP growth.

- \( \chi_t \), on instrument variable, is an Export Weighted Growth Predictor index.

- \( \gamma_t, \chi_t \), and \( X_t \) are country-fixed effects, time-fixed effects, and time-varying control variables, respectively.

Instrumental Variables: Export Weighted Growth Predictor

- Our instrumental variable should be strongly correlated with changes in economic domestic performance while being uncorrelated with changes in domestic political conditions or economic policy.

- Recently, it has been found that trade can be a strong predictor of GDP growth (Acemoglu et al., 2008; Britzcker and Ciccone, 2010).

- Following Acemoglu et al., we construct a measure of bilateral trade using data from the IMF Direction of Trade Statistics. We modify this indicator by multiplying it with the GDP growth rate of a country’s trading partners to construct an Export Weighted Growth Predictor (EWGP): 

\[
EWGP_t = \sum_{i=1}^{n} \left( \frac{1}{F_i} \cdot \sum_{i=1}^{m} \left( \frac{EXPORTS_i}{F_i} \right) \cdot GDPC_i \right) \cdot GDPC_t
\]  

- Note that the weight (exports/GDP) is kept constant by taking the within-country average over time, so as to prevent changes in trade policy from driving our results.

- This is important as we want to make use of only the differential effects of global economic conditions which are outside domestic governments’ control

Instrumental Variables: Results

Table 1: Presidential and Parliamentary Systems

<table>
<thead>
<tr>
<th>Variables</th>
<th>Change in Prime Minister</th>
<th>Change in Prime Minister</th>
<th>Ideological Change</th>
<th>Ideological All Changes</th>
<th>All Changes</th>
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<td>-0.021**</td>
<td>-0.00903**</td>
<td>-0.04386**</td>
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Table 2: Parliamentary Systems Only

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Table 3: Add Control Variables

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References & Acknowledgments


Thank you to Professor Imai, Manolis Kaparakis, and the rest of the QAC for all of their help and guidance.