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# **Government Constraints and Economic Voting in Greece**

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# Government Constraints and Economic Voting in Greece

Spyros Kosmidis<sup>#</sup>

## ABSTRACT

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Incumbent parties in Southern Europe experienced losses in their electoral support that came along with a series of economic reforms imposed by the EU and the IMF. However, recent theories of accountability would predict lower levels of economic voting given the limited room left for national governments to manoeuvre the economy. To resolve this puzzle, the paper presents and models quarterly vote intention time series data from Greece (2000–2012) and links it with the state of the economy. The empirical results show that after the bailout loan agreement the Greek voters significantly shifted their assignment of responsibility for (economic) policy outcomes from the EU to the national government, which in turn heightened the impact of objective economic conditions on governing party support. The findings have implications for theories linking international structures, government constraints and democratic accountability.

**Keywords:** Economic Voting; Greek Crisis; EU; Government Constraints; Accountability

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# Government Constraints and Economic Voting in Greece

## 1. Introduction

Although normative accounts of democracy expect citizens to hold their governments accountable in response to economic performance, a long list of factors make the relationship between the economy and the vote unstable (Powell and Whitten, 1993; Tilley and Hobolt, 2011; Hobolt, Tilley and Banducci, 2012). This list of factors currently includes the moderating role of globalisation and international economic structures on which voters are less likely to hold a government accountable when they think that governments have limited room to manoeuvre the national economy (Hellwig, 2001; Hellwig and Samuels, 2007; Duch and Stevenson, 2010).

However, incumbent governments in countries with only minuscule room to propose and implement economic policy like Ireland, Portugal, Spain, and more notably Greece, experienced enormous defeats in the voting booth. Fianna Fáil won only 17% of the vote, almost 25% less compared to the 2007 Irish election, the Portuguese Socialist party shrunk by 8%, while PSOE (Spanish Socialists) lost 15% compared to the 2008 election. In Greece the two consecutive elections revealed unprecedented voting patterns. In the May 6 election more than 2 million voters (around 70%) abandoned the governing party. SYRIZA, a radical left party with a historical average in the 3.5-4% region won 17%

of the vote, and almost 7% of Greeks voted for the Neo-Fascist “Golden Dawn” party. The safest explanation of these voting patterns have been based on retrospective economic voting (Key, 1966; Fiorina, 1981; Kramer, 1983) and recent empirical research by Bartels (2011) shows evidence that the losses in incumbent vote shares are predominantly explained by economic conditions and less by government ideology or other influences.

The puzzle remains, however, because the aforementioned countries share a number of constraints that would complicate the attribution of responsibility and thus give less credit to economic explanations of party support. The first layer of government constraints is their membership in the European Union and the Eurozone which combined deteriorate their ability to manoeuvre policy (Lobo and Lewis-Beck, 2012; Hobolt, Tilley and Wittrock, N.d.). After the beginning of the financial crisis (that officially started in September 2008) and because of the high borrowing interests, these nations (with the exception of Spain) signed international loan agreements that were accompanied with a strict economic programme imposing austerity measures and spending cuts to reduce the high debt. This created the second –and thickest– layer of government constraints that dramatically reduced the ability to propose, design and implement policy.

This programme (i.e. the Memorandum) was set up and it is currently being supervised by the Troika comprised of the IMF, the European Central Bank and the European Union. As with most debt-relief IMF missions, the conditionality of the loans is severe. The Memorandum not only sets the goals for deficit reduction, but it often imposes which

domains or society groups will be affected by the austerity and the cuts.<sup>1</sup> This pattern raises important concerns for democratic accountability. In a recent article on Latin American democracies, Alcaniz and Hellwig (2011) find that politicians seek to avoid the blame and shift it to non-elected international actors. These developing democracies have similar (though by no means identical) characteristics with the South of Europe and voters tend to assign responsibility to the IMF and the global economy, a pattern shown to be important for the decline in electoral accountability (see Hellwig, 2001). However, this is not what happened in recent elections in Southern Europe.

The paper speaks to this paradox by using Greece as a case study. Greece is the country that 1) has experienced the most severe spending cuts and wage reductions in the region and 2) where the IMF played the most intervening role making the analyses relevant to the previous paradox. The paper analyses economic voting in Greece and tests whether the variation in economic voting is conditional upon the distribution of responsibility between the national government and the European Union. The analyses, therefore, leverage additional angles to understand the recent crisis and perhaps an empirical tool to speculate future developments in Greek politics. The EU is expected to play an important part in these developments and the results offer a rather gloomy picture of how Greeks perceive the economic role of the Union. Parallel to these contributions, the paper offers the first empirical dynamic analysis of Greek public opinion complementing recent work on

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<sup>1</sup> The latter was eloquently put to the Greek officials in September 2012 when the IMF inspectors of the Greek economy called for a “bolder plan” to find € 11.5 billion in cuts in return of the next instalment. <http://www.euronews.com/2012/09/11/greece-deficit-cut-but-tax-revenue-fails-to-hit-targets/>

individual level economic voting (for a recent analysis of Greek economic voting, Nezi, 2012).<sup>2</sup> The results from the time series model reveal two important findings. In line with what Lobo and Lewis-Beck (2012) found in their recent individual level analyses, economic voting decreases when voters think that the European Union should deal with the national economy. What is particularly interesting is the variation of the responsibility variable which until 2010 was overwhelmingly pro-European and changed abruptly after the Memorandum was voted in Parliament. In effect, we only see substantial economic voting in the last two years in the dataset. This suggests that the causal links in the constraints, economy and elections nexus are much more complex than initially believed.

The paper proceeds in the following way; In the next section I set out a brief review of the concepts relating to economic voting and proceed with a more extensive review of the works linking international economic structures, globalisation, and accountability. The Greek case and its connection to international and supranational institutions, finally, lead to the statistical analyses of the paper. I conclude with a discussion of the main findings and the theoretical implications of the paper.

## 2. Theoretical Background

### 2.1 Accountability & Economic Voting

The foundations of economic voting are laid on a simple rule on which voters reward a government for a good economy and punish it for a bad

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<sup>2</sup> Greece has also been part of large cross-sectional datasets (e.g. Duch and Stevenson, 2008; Van der Brug, Van Der Eijk and Franklin, 2008).



one (Kramer, 1983). As a result, improvements in the national economy bring about increases in popularity, while a plummeting economy will induce punishment and losses in support. This rule, in turn, rests on the assumption that voters have the capacity to assign responsibility for economic outcomes. The clarity or ambiguity in the assignment of responsibility has produced a prolific literature on the robustness, the stability and the size of economic voting.

These studies have relied on two basic research designs: First, through linking party support with objective economic conditions like the levels of unemployment, inflation or/and growth and, secondly, by measuring subjective evaluations of performance or prospective and retrospective assessments of the financial situation.<sup>3</sup> Without entering the debate about the endogeneity of subjective economic considerations (see e.g. Wilcox and Wlezien, 1993; Wlezien, Franklin and Twiggs, 1997; Evans and Andersen, 2006; Tilley and Hobolt, 2011), the hypotheses regarding the real economy and party support are less ambiguous. Increases in unemployment or inflation should correspond to a decline in governing party support, while declines in unemployment or inflation should correspond to a reward for the incumbent party that is reflected in linear increases in government popularity. In two party systems the changes in popularity are -almost- directly reflected in the opposition party. In multi-party systems the gains of opposition parties in worsening economic conditions is not always symmetric.<sup>4</sup>

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<sup>3</sup> For the debate regarding the rivalry between retrospective, prospective, egocentric or sociotropic MacKuen, Erikson and Stimson (1992) and Clarke and Stewart (1994) offer an interesting discussion.

<sup>4</sup> This has important implications for economic voting in Greece and the May/June election results. These implications are being touched upon in the discussion section.

The asymmetries in those relationships have raised doubts about the stability of the popularity function (but see Bellucci and Lewis-Beck, 2011). Unemployment, for example, tends to be more important when a leftist government is in office, while inflation becomes more salient when a right-wing government is ruling. Moreover, the punishing aspect of accountability has found extensive support in the data, while rewards for booming economic conditions are only sparse in the literature. Works in social psychology by Lau (1982, 1985) and political science by Soroka (2006), Key (1966) and Mueller (1973) argue for a larger causal importance of negative consequences over neutral or positive that underpin this disproportionate “punishment voting”. More recent work, however, spells doubts about this asymmetry in the economic vote (see Duch and Stevenson, 2008; Van der Brug, Van Der Eijk and Franklin, 2008; Lenz, 2009).

The other important asymmetry relates to different individual characteristics. For instance, the tangible consequences of the state of the economy appear to be disproportionately more important for voters who lack political sophistication and for voters who do not have strong partisan predispositions (Zaller, 2004). Gomez and Wilson (2001, 2006) suggest that low sophisticates will place more weight on national economic considerations as they will be likely to link the prospects of the national economy with the performance of the governing party (hence discounting globalisation, crises etc). At the same time, and in line with speculations about the endogeneity in economic voting, incumbent partisans tend to exaggerate the health of the national economy (Tilley and Hobolt, 2011).

A good proportion of these theories are based on micro evidence. An important body of work looks at contextual variation in economic voting. The seminal work on the Clarity of Responsibility suggests that institutional factors also induce instability. These factors tend to condition the levels of economic voting and again relate to how clear the attribution of credit and blame is (Powell and Whitten, 1993; Anderson, 1995, 2000). These include constitutional arrangements like the presence of a bicameral opposition, how cohesive are the incumbent governments (see Hobolt, Tilley and Banducci, 2012) and whether the electoral system promotes coalition or minority governments. Such cases make praising or sanctioning the government harder and more ambiguous (but see Samuels and Hellwig, 2010).

To be sure, Greece is a high clarity democracy, where the ease in attributing credit and blame should facilitate economic voting. Given that this is the first time series analyses of economic voting in Greece, the theoretical expectations should favour high levels of accountability. Still, the last 10-12 years have changed a lot about how the Greek economy operates, initially with the introduction of the Euro currency and more recently with the IMF loans. Very recent literature has examined how international political and economic institutions relate to the size of the economic vote.

## 2.2 International Constraints & Electoral Accountability

For the last thirty years the international economic structures have changed substantially. As a result, next to the national economies, there exists a global economy. Mass political behaviour has been affected by

this shift by complicating the assignment of government responsibility for economic outcomes (Hellwig and Samuels, 2007).

The association between globalisation and domestic electoral politics is primarily related to the ability elected politicians have to propose and implement policies. There are two views concerning the room to manoeuvre. The first is informed by the idea that a country's integration to the global financial system only leaves limited room to decide for and implement policy (e.g. Hays, 2003). Others, on the other hand, maintain that even though trade relations are more open than ever, and that capital flows are pivotal for economic growth, there is still space to implement policies and, consequently, the key functions of electoral competition are not shallow (Garrett, 1998). From a different perspective, some have suggested that globalisation (trade openness in particular) tends to improve the voters' ability to evaluate the competence of a government to deliver economic policies (Scheve, 2001; Alesina, Londregan and Rosenthal, 1993).

The debate is only empirically settled and the findings conform to the work by Hellwig and his colleagues who report that globalisation tends to suppress the levels of economic voting (Hellwig, 2001; Hellwig and Samuels, 2007). The key aspect of this explanation is premised on the following idea:

*“in closed economies, it is difficult for politicians to escape blame for poor economic performance. Globalisation, however, provides politicians with a tool to blame poor economic performance on factors beyond their control . . .”* (Hellwig and Samuels, 2007: 288).

As a result, politicians seek to avoid the blame and voters need to be able to distribute responsibility to non-electorally dependent decision-makers (NEDDs). This tendency creates additional fluctuations in the economic vote.

Duch and Stevenson (2010), for example, suggest that voters inform their political decisions by 'extracting signals' from unexpected shocks in the economy. On this account, voters have the capacity to distinguish between shocks caused by the incumbent's –managerial– competence from shocks caused by exogenous factors. In effect, this process makes it possible for voters to cast informed –economic– votes. The actual mechanism expects voters to compare the variances in the competency component and the international shocks and then hold the national government responsible if the variation in the competence shock is larger than the international.

In a similar vein, Kayser and Peress (2012) show evidence for economic benchmarking. That is, voters compare and contrast their own countries' economic performance to their neighbours' or the global economy. This facilitates the process of arriving at a clearer appreciation of the governments' ability to deliver good economic outcomes net of exogenous economic circumstances. For Kayser and Peress, economic benchmarking increases the clarity in the assessment of economic performance and thus tends to reduce the instabilities in the economic vote.

The different mechanisms that inform the accountability–economy–globalisation nexus (manoeuvrability, benchmarking and competency signals) offer important insights about the works of accountability. The

key expectation is that the collective voting weights on the economy will vary substantially across different levels of exposure and integration to international structures. What remains less understood, however, is how voters distribute responsibility in occasions when non-elected officials influence the decisions of elected governments. Better suited to the paper's theme, what are the electoral implications when a high-debt country has the International Monetary Fund as a lender?

The key aspect of the IMF's role on accountability is the conditionality of the loans. The conditions, which in the Greek case were passed as a law from the Parliament, pertain to a set of policies required in exchange for financial resources. In the case the conditions are met, the funds (installments) are withheld. In order to avoid bankruptcy, or for Greece's case the sudden return to the drachma, countries conform to those conditions in order to receive the loan installments. This conditionality is leaving only limited room to decide for policy amplifying the concerns about democratic interactions and accountability. Recent research on Latin America by Alcaniz and Hellwig (2011) illuminates the problem.

Alcaniz and Hellwig (2011)'s argument, that finds support in the data, is that responsibility has international, contextual and individual variation. More specifically, the results show that much of the blame for low growth and market volatility is assigned to non-elected actors like the IMF and the World Bank. As a consequence, *"When voters grant responsibility to non-elected actors, they lighten the burden placed on the government's choices and execution."* (2011:390). The empirical results also show that additional contextual factors can influence how successfully politicians shirk responsibility in Latin American democracies

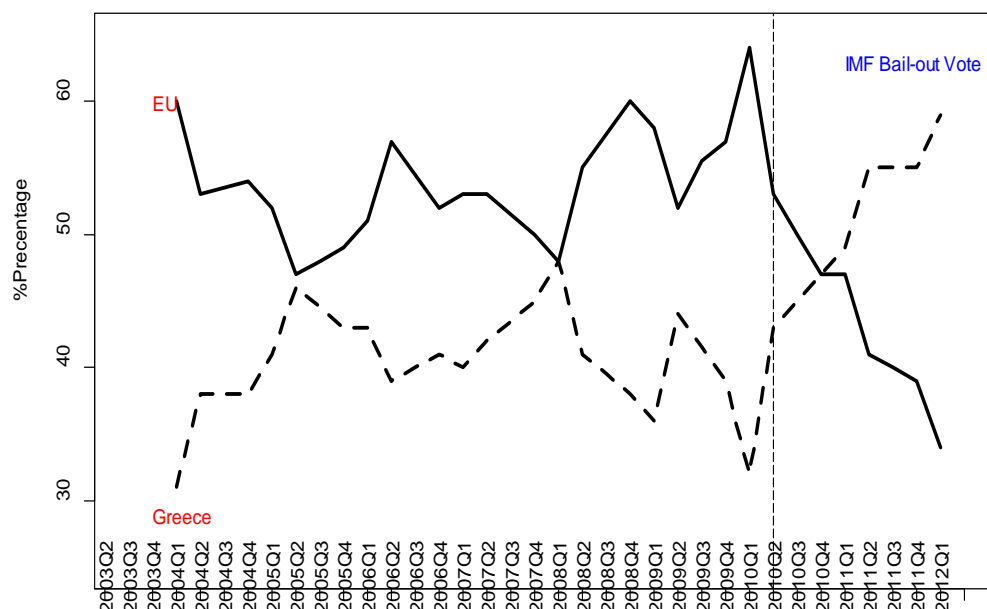
(Alcaniz and Hellwig, 2011: 410). This creates a loop-hole in the quality of democratic interactions and suppresses the degree of economic voting. The political systems in Southern Europe, and particularly in Greece, are currently experiencing similar international pressures. The main difference is the well-established role of the European Union in their domestic politics and particularly its role as part of the IMF/ECB/EU Troika.

As in federal states, European electorates have to distinguish whether policy choices and outcomes are the responsibility of the sovereign government or the European Union. This is reflected in the way European voters assign responsibility for government policy. Hobolt, Tilley and Wittrock (N.d.) find that much of this difficulty in assigning responsibility corresponds to the levels and the sources of information (see also Johns, 2011). They argue that voters assign responsibility by following partisan cues charged with favourable and unfavourable opinions about the Union. These patterns also have implications about the levels of economic voting. Lobo and Lewis-Beck (2012) show that voters who hold the European Union accountable for national economic policy accord less weights on economic considerations when they cast their votes. The evidence, that are based on survey data from Spain, Portugal, Italy and Greece, support their main 'European integration' argument on which the European Union and the Eurozone are important layers of governance that tend to obscure the attribution of responsibility in the European South and thus suppress economic voting (see also, Anderson, 2006).

### 3. Distribution of Responsibility and Public Opinion, 2000-2012

Individual perceptions of responsibility, like the ones used by Lobo and Lewis-Beck (2012), are helpful to understand individual variation in political behaviour and accountability. Aggregate assessments of those opinions can highlight dynamic processes in the electorates. Figure 1 displays the percentages of voters reporting whether Greece (dashed line) or the EU or other international organisations (solid line) should be responsible to deal with important Greek problems. The dashed vertical axis corresponds to quarter when the Greek parliament voted in favour of the IMF/ECB/EU bailout loans and the economic measures attached to them. The chart is derived from the survey question, “Do you believe that important issues should be dealt with at the national level, or within international unions, like the European Union?”.

**FIGURE 1: European and National Responsibility to Deal with Important Issues**





The plot starts in 2004 and the final reading is from the first quarter of 2012. The data reveals interesting patterns about the relevant attitudes. First of all, the EU as an answer has the lead for the vast majority of the series. The two time points when the two groups appear closer are the second quarter of 2005 and the first quarter of 2008. In the first instance the newly elected New Democracy government admitted to EU officials that the Greek deficit is larger than initially believed (and recorded by previous PASOK governments) while the second possibly coincides with the period immediately after the Lisbon treaty that was voted in the end of 2007.<sup>5</sup>

After 2009 the EU series drifted further apart in the anticipation of a European assistance to resolve the debt problem and avoid bankruptcy. In 2010, however, the Greek government was unable to borrow money from the markets and begun negotiations with the Union and the IMF. The percentage of Greeks in favour of Europe as a vehicle to solve important issues shrunk and a quarter after the parliamentary vote on the international bail-out loan, the two series crossed making the national government the preferred institution to resolve important issues. The processes that might explain some of the variation in the series presented in Figure 1, might also be important to explain government vote intentions which is displayed in Figure 2.

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<sup>5</sup> Given that the data is quarterly, some reservations should be held about the role of these events on public opinion. A rigorous analysis of the role of events is not provided in this paper.

**FIGURE 2: Quarterly Greek Party Support, 2000-2012**

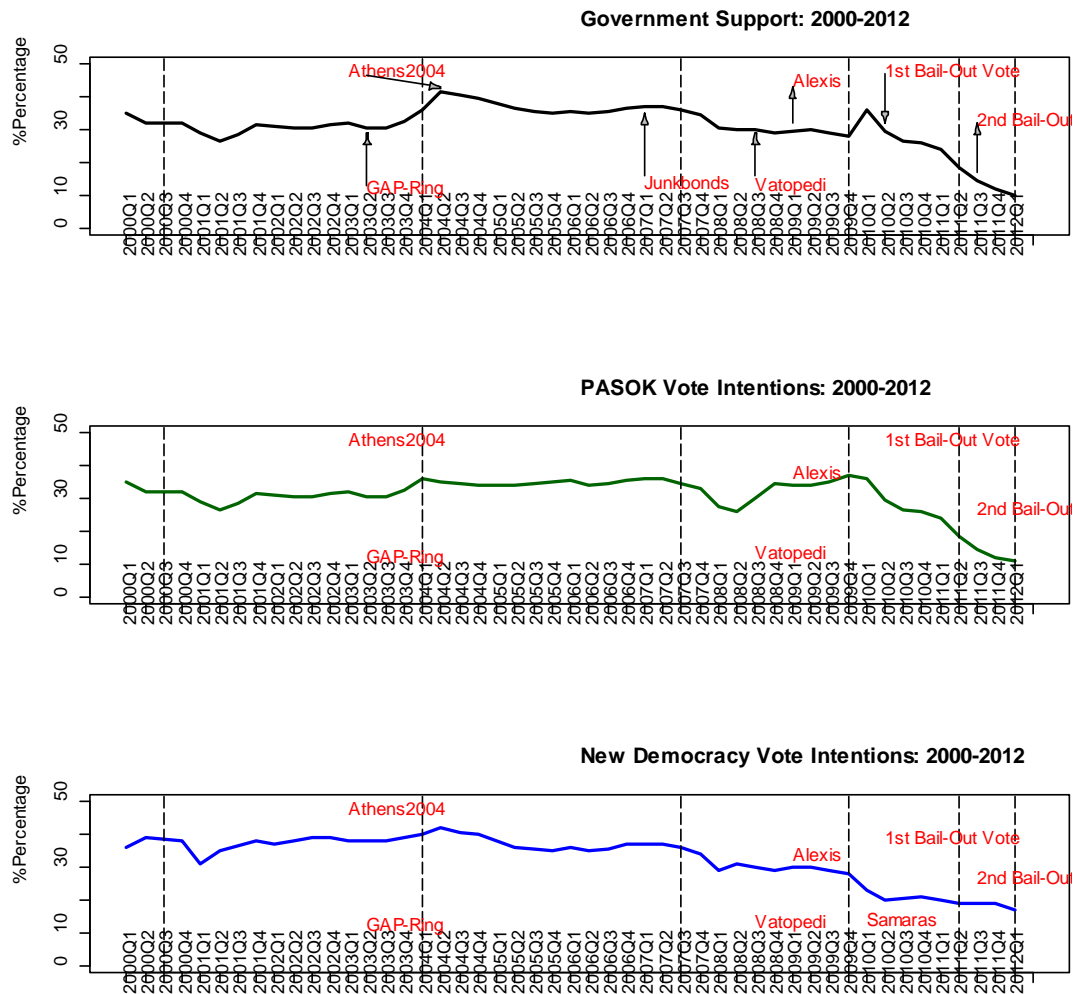


Figure 2 presents the main time series to be analysed in this paper. The figure plots the aggregate vote intentions for the two major parties that have governed Greece in the last 35 years. The dashed vertical lines denote the 4 elections that have taken place during the period under investigation (03/2000, 03/2004, 09/2007, 10/2009). The series, like the one in Figure 1, shows data gathered from face to face interviews from a representative sample of 1200-1400 Greeks that were provided with a

ballot box to mimic the actual voting process.<sup>6</sup> This method ensures that problems like interviewer effects or social desirability do not influence the quality of the survey responses. The green line corresponds to PASOK support and the blue to New Democracy's. The top series with the black line corresponds to government support which is the key dependent variable in the analyses to follow. The measure of party support is constructed using the traditional "If there were a general election tomorrow, which party would you vote for?" vote intention question.

The series begins just before the 2000 election that gave PASOK and Costas Simitis a very fragile majority (PASOK's third consecutive) in Parliament. Immediately after the election, the governing party started losing public support even though two major events like the official introduction of the Euro currency and the historical dealing with the terrorist organisation "17th of November"<sup>7</sup> could be counted as important successes. With the electoral prospects for a re-election in 2004 looking slim, Simitis resigned from the party leadership and gave way to George A. Papandreou (flagged as GAP—Ring in Figure 2) that boosted PASOK's support instantaneously, yet not sufficiently enough to win the election in March 2004.

Costas Karamanlis and the newly elected government dealt with the final details and the organisation of the 2004 Athens Olympics. The hardest aim, however, was to sustain the boosting economy (5% growth just

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<sup>6</sup> The survey data was gathered by the prominent polling company Metron Analysis which is a member of the Hellenic and European Market Research Association and member of the Worldwide Association of Public Opinion Research.

<sup>7</sup> Prominent terrorist organisation that operated from the early 1980's until the early 2000's.

before the election) and capitalise on the success of the games. Though the Olympics were successful, the national economy did not continue growing at previous rates. The rates of unemployment, however, followed a slow but constant declining trend. Until 2007, when the next election took place, only few politicians would express their fears about the economy and, in general, Greek politics were as usual. Allegations about corruption scandals, mismanagement, a sustainable economy and, undoubtedly, lack of awareness of what was about to happen in the global financial system. In the 2007 election, the campaign is dominated by the wildfires in the Peloponnese and though New Democracy won by a 3% margin (yet with a 4.5% decline in support), the actual translation to parliamentary seats only secured a fragile majority of 153 (out of 300). A combination of events along with the 2008 economic meltdown further shrunk the electoral appeal of New Democracy and after 10 years of trailing in the polls, PASOK became the election favourite. Indeed, in October 2009 Papandreou won a landslide with 44% of the vote and 160 MPs.

Even before the 2009 election there were serious concerns about Greece's ability to borrow money from the financial markets. The reaction from the Greek government was to borrow more money to convince the EU partners of its creditworthiness. After PASOK's victory and, more notably, after the announcement that the budget deficit is not 3% but 12%, the spread of the 10 year Greek bond drifted upwards and the country's ratings were being constantly downgraded by all rating agencies (like Fitch, Moody's, Standard & Poor's etc.).<sup>8</sup> After six months

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<sup>8</sup> The second time in four years that the elected Greek government admits that the official Greek statistics are not trustworthy.

of deliberation and unsuccessful efforts to minimise the budget deficit and reduce the sovereign debt, Papandreou announced (April 2010) that the Greek government would ask from its EU partners to prepare a rescue package. The bailout package was voted in the Greek parliament the following May. The Troika (European Central Bank, European Union and the International Monetary Fund ) gave a loan of e 100 billion and started monitoring the agreed upon reforms that were primarily concerned with the reduction of the budget deficit.

Throughout this period (2008-2012) both governments that served in office would be use the international economy to escape the blame for the economic downturn. For example, Karamanlis ran the 2009 election on the basis that the economic decline was out of his hands and that the credit crunch along with the Autumn collapse of Lehmann Brothers brought about the domestic economic problems. While in opposition Papandreou tried to elevate the importance of Karamanlis' dealings with the economy and only rarely used the international economy as the main reason for the decline. When PASOK came in power, Papandreou continued blaming the previous government (even after 2010) and begun accusing the global financial system (Hedge Funds, Rating Agencies, etc.). Very often he would criticize the passive role of the EU in dealing with financial speculators. However, the economic consequences of the Memorandum were too severe to be ignored from voters.

### The political consequences of the Memorandum

Even though the Memorandum (i.e. the bailout conditions) would promote a series of structural economic reforms, its main concern was

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the shrinking of the sovereign debt through increasing taxes (both direct and indirect) and reducing government spending through horizontal cuts in public sector jobs. In effect, within a year there was a 30% cut in salaries in the public sector, a 2% increase in VAT, and a substantial increase in ad hoc property taxation. The economic consequences were immediate with an enormous increase in unemployment, shrinking output and growing income inequality. At the same time, the actual national debt increased by almost 20% and in the last quarter of 2011 the GDP growth shrunk by 7%. Besides the actual failure to deal with the basic problem (i.e. the sovereign debt) the conditionality of the loans and the consequences of the cuts brought about social and political unrest.

The growing public discontent towards the elected Greek government and some opposition MPs triggered one of the longest protests in the centre of Athens that lasted for more than three months. The reasoning behind these protests was 1) the austerity measures and its severe consequences and 2) the popular belief that the national sovereignty was on hold due to the two rescue packages and the IMF impositions. In reality, the actual room to manoeuvre the economy was indeed limited because of the mutual agreement between the Greek government and its international lenders (IMF/ECB/EU).<sup>9</sup> If one combines the apparently unsuccessful efforts to reduce the debt and the simultaneous increase in unemployment and shrink in output, the Greek government was at a deadlock after being in office for less than two years.

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<sup>9</sup> Note however here that the elected Greek parliament voted in favour of the two bailout agreements with 172 MPs in May 2010 and 216 in February 2012.

By January 2011, the Papandreou administration was becoming increasingly unpopular. The latest polls (last quarter of 2011) would indicate that PASOK had lost more than 75% of its electoral support as compared to the 2009 election. After an unsuccessful first attempt in June 2011, Papandreou re-initiated discussions with the other parties in the parliament to form an interim coalition government with him resigned from the prime ministerial position. Indeed, after the October 2011 EU Summit in Brussels that secured a second rescue package along with more than 50% haircut of the debt (€203 billion debt reduction in total), Papandreou resigned and Lucas Papademos (former central banker) took over the position and formed a government with a cabinet comprising of ministers from PASOK, New Democracy and the Populist right-wing party LAOS.<sup>10</sup> The final data point corresponds to the quarter the 6 May election took place that confirmed the collapse of the two mainstream parties. In those two elections the Greek voters gave a huge boost to SYRIZA's percentages and the Neo-Fascist party –Golden Dawn– secured several positions in the Greek Parliament winning 7% of the vote (almost half a million). There is no doubt that the economy plays some role in this process.

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<sup>10</sup> LAOS eventually left the coalition just before the parliamentary vote on the second rescue package. At the same time, an important faction of New Democracy also left the party and formed the 'Independent Greeks'. The Independent Greeks parties won 7% of the vote in the June 2012 election, while LAOS did not pass the 3% threshold to elect MPs. LAOS' polling numbers are currently below 1% (10/2012).

## 4. Empirics

Intuition and some evidence would promote the idea that economic voting in Greece is high and robust. As said, Greece is a high clarity nation predominantly electing one party government with a stable party system (at least until 2009). The actual election results in 2009 and 2012 as well as comparative empirical evidence (e.g. Bartels, 2011; Nezi, 2012), show that economics are an important consideration for the Greek electorate.<sup>11</sup>

In what follows I present some simple accountability models that are specified to capture the impact of the objective economy on governing party support. The dependent variable in this model is the proportion of Greek citizens reporting that they would vote for the government if an election would take place. The key explanatory variable, that I label Objective Economy, represents the misery index (unemployment+inflation), which is expected to exert a negative effect.<sup>12</sup> In other words, increases unemployment or/and inflation are expected to lead to losses in governing party support.

Table 1 presents four OLS time series models of governing party support. Column 1 reports regression coefficients showing the negative relationship between the objective economy and party support. The actual impact of lagged economic conditions (ObjectiveEconomy<sub>t-1</sub>) is highly statistically significant ( $\beta_{\text{model1}} = -0.481$ ) even though the model

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<sup>11</sup> In the following analyses I do not include additional explanatory variables that are known to be robust individual level predictors of party support. Although some of these sociological/psychological voting explanations (see Campbell et al., 1960) could be found, their analyses at the macro level are not really illuminating. The movements of the party identification series are almost identical to that of vote intentions.

<sup>12</sup> Economic variables were gathered from [www.statistics.gr](http://www.statistics.gr), the official portal of the Hellenic Statistical Authority.



specification controls for dynamics via the endogenous lagged version of party support ( $\text{GovernmentSupport}_{t-1}$ ). Besides adding dynamics to the model specification the endogenous lag variable safely captures any prior shocks or any other omitted considerations in the dependent variable. Alternative specifications (without endogenous lag and the economy at time “t”) lead to the same conclusions.

These results suggest that worsening economic conditions bring about a decline in government popularity, a result that conforms with the notion of electoral accountability. To increase confidence in the empirical assessment, I include a set of controls that might alter the relationship. For model stability model 2 includes a trend variable, (Trend) that starts from 0 in the first observation and adds one point until the end of the dataset, an index of important political events (Events)<sup>13</sup> and an election dummy (Elections) variable that takes the score of 1 in an election quarter and 0 otherwise. Even after the inclusion of the controls, the impact of the economy remains strong and statistically significant ( $\beta_{\text{model2}} = -0.495$ ).

**TABLE 1: Time Series Ordinary Least Square Models of Governing Party Support**

DV: $\text{GovernmentSupport}_t$	(1)	(2)	(3)	(4)
$\text{GovernmentSupport}_{t-1}$	0.889*** (0.083)	0.845*** (0.077)	0.886*** (0.076)	0.882*** (0.074)
$\text{ObjectiveEconomy}_{t-1}$	-0.481*** (0.175)	-0.495*** (0.182)	-0.436** (0.182)	-0.273 (0.166)
Election		0.283 (1.105)	0.355 (1.114)	-0.124 (1.277)

<sup>13</sup> Most of them are depicted in Figure 1. Additional events include the quarter the greek police arrested the 17N terrorist group, the Summer of the Olympic games, the Grigoropoulos events, Vatopedi, the Phone hacking incident, the Zahopoulos events and the Junkbonds scandal.

DV: GovernmentSupport <sub>t</sub>	(1)	(2)	(3)	(4)
Events		-0.386 (0.838)	-0.104 (0.849)	-0.170 (0.872)
Trend		-0.046* (0.026)	-0.035 (0.025)	-0.013 (0.032)
Imfvote (May2010)			-4.331*** (1.037)	
Constant	9.659* (4.912)	12.490** (4.903)	10.117** (4.820)	7.761* (4.400)
N	2000Q2- 2012Q1	2000Q2- 2012Q1	2000Q2- 2012Q1	2000Q2- 2010Q2
R <sup>2</sup>	0.892	0.901	0.909	0.840

Note: Heteroscedasticity Robust standard errors in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

The model presented in Column 3 adds to the specification a dummy variable which seeks to control for the official beginning of the bailout/rescue package. The variable is scored 1 for the second quarter of 2010 (the actual parliamentary vote took place on May) and 0 otherwise. The impact, as expected, is significant and it appears that PASOK's government lost around 4.5 percentage points just for passing the Memorandum from the Greek Parliament. Even when controlling for the IMFVote (May2010) event, however, the impact of the economy remains strong (though the  $\beta$  is smaller than in model 2) and statistically significant, suggesting that much of what is happening in the political realm has dual antecedents; the giveaway of national sovereignty and the abrupt economic decline (and their combination).<sup>14</sup>

Model 4, finally, only includes the observations before the bail-out (2010Q2). This model is presented to give a rough appreciation of the democratic interactions before the IMF/ECB/EU loans. The main

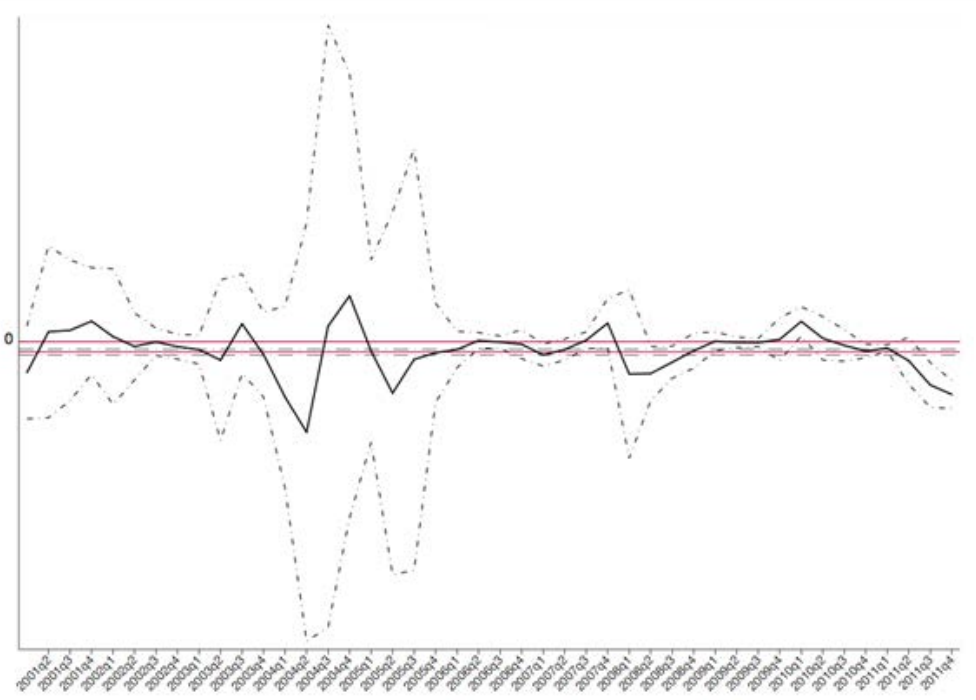
<sup>14</sup> I discuss that in more detail later in the paper.

explanatory variable Objective Economy is now indistinguishable from zero ( $\beta_{\text{model5}} = 0.149$ ,  $p > 0.1$ ), while none of the remaining variables exert a substantial effect on governing party vote intention. These results raise speculations that the size and the significance of the economic variable might be heightened in that final period within the sample that relates to the dramatic decrease in output and the abrupt increase in unemployment.

This speculation can be further explored by looking at the temporal variation in the economic vote. Although the optimal empirical strategy is to estimate dynamic conditional correlations via a bivariate GARCH model (Lebo and Box-Steffensmeier, 2008), the very limited number of observations makes the task difficult. Instead, I estimate a multivariate rolling regression with four Moving Windows. Given that within the rolling regression framework it is expected to sacrifice observations, the first four quarters are omitted from the analyses. The estimated coefficient for the objective economy is plotted in Figure 3 and it should be examined as follows: The straight horizontal line features the constant coefficient with 95% confidence bands. The varying line measures the size of the coefficient over time while the dashed lines around it represent the 95% confidence intervals. To conclude that there is a statistically significant the confidence intervals should not include a zero and theory expects the varying line to be below zero (i.e. negative). As it is clear from the plot, the periods when the economy is weighted in the voters' calculations are few. What is interesting is that the period after the election of New Democracy in 2004 the uncertainty around the estimate increases substantially. This is presumably due to the fact that the previous government had stayed in office for almost 11 consecutive

years and the assignment of responsibility about economic outcomes was ambiguous. Equally interesting is the variation of the economic vote during the final observations in the sample when we only observe substantive economic voting (plus the second quarter of 2008). This corroborates the findings reported in Table 1.<sup>15</sup>

**FIGURE 3: Rolling Regression Estimates of Economic Voting Over Time (4MW)**



The introductory discussion on whether this is a puzzling finding (reported in both comparative and Greek analyses by Bartels (2011) and Nezi (2012) respectively) is again important. This final period corresponds to the period when the Greek government only had minuscule room to manoeuvre the economy, while, simultaneously

<sup>15</sup> However, some reservations should be held with rolling coefficients as they are not stable across different specifications. The rolling coefficient presented in Figure 3 is from a simple specification that controls for elections and political events. However, alternative specifications more or less corroborate the main findings of the study.

benchmarking would be unfavorable to any national or international comparison. The paper argues that over the same period the way voters attribute responsibility also changed.

To test whether economic voting varies along with the future responsibility attribution I construct a variable measuring the share of Greeks thinking that the National Government relative to those believing the EU is better at dealing with important issues (GreekResponsibility). After this manipulation, scores at the region of 0.5 denote equal share of opinions in the electorate while scores closer to 1 denote beliefs that Greece is best able to deal the important problems in Greece.<sup>16</sup> The lagged version of this variable is then interacted with the lagged rate of unemployment and included in the accountability model.

**TABLE 2: OLS model with multiplicative term**

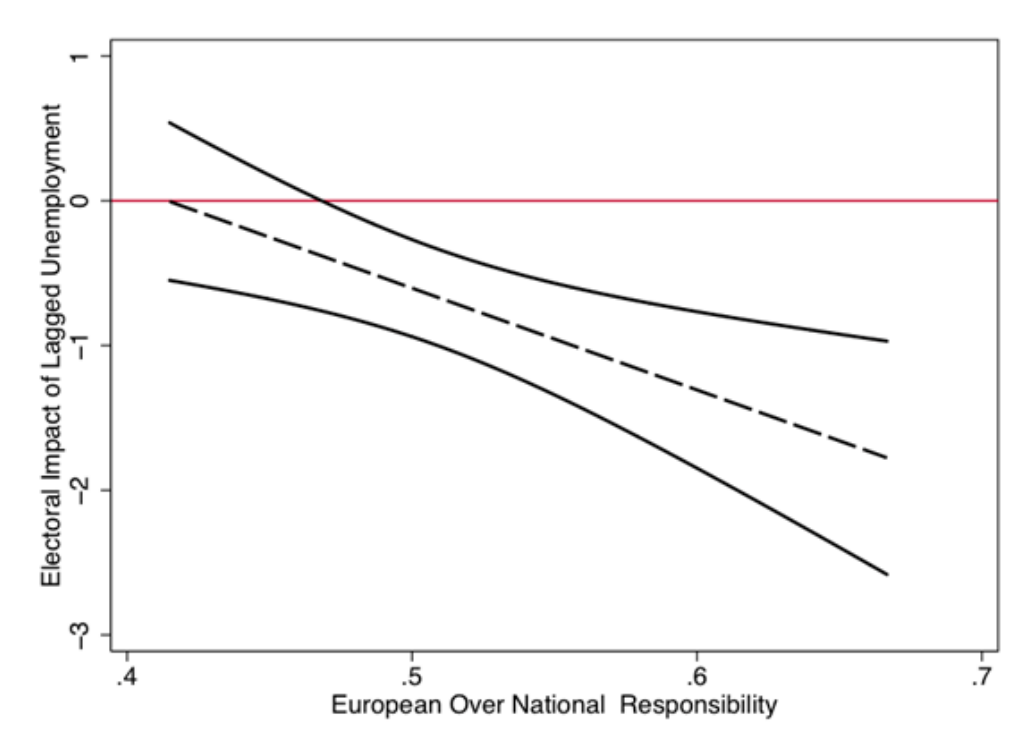
DV: GovernmentSupport <sub>t</sub>	Coef.
Unemployment <sub>t-1</sub>	3.144*** (1.318)
GreekResponsibility <sub>t-1</sub>	44.418 (30.682)
Greece × Unemployment <sub>t-1</sub>	-7.418*** (2.552)
Elections	1.460 (1.385)
Imfvote(May2010)	-5.040*** (2.683)
Trend	-0.498*** (0.053)
Constant	30.282* (15.187)
N	32
R <sup>2</sup>	0.949

Note: Heteroscedasticity Robust standard errors in parentheses  
 \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

<sup>16</sup> The variable is worked out as follows: Greece/(Greece+EU)

The results are reported in Table 2. It should be noticed that the number of observations drop to 32 because the survey question was first asked in 2004. The important variable here is the sign of the interaction term ( $\text{GreekResponsibility}_{t-1} \times \text{Unemployment}_{t-1}$ ) which renders a significant negative coefficient. This suggests that in higher values of the Responsibility variable (Greek Responsibility) the larger the economic vote. To visualize this relationship I plot the marginal effect and the simulated confidence intervals. The conditional relationship is displayed in Figure 4.

**FIGURE 4: Economic Voting Conditional upon EU/National Responsibility**



As it was noted before the 0.5 point on the X-Axis represents an equal share of responses, while values closer to 1 denote more respondents preferring the national government to deal with important issues. In effect, the plot, as with the regression coefficient, suggests that the

larger the proportion of voters who think that important issues should be dealt by the elected national government, the higher the levels of accountability. As with the model specification in Table 1, this model also controls for a time trend to increase the reliability of the parameter estimates. The confidence in the results is discussed in more detail in the next section which also reports robustness checks for the model specification presented in Table 1.

### Sensitivity Analyses

A final assessment of the empirical exercise is to assess the robustness of the empirical specification to the issue of autocorrelation. For this reason I estimate two set of models that entertain some concerns about the data generating process. Model 1 that is being reported in Table 2 presents an OLS time series model with Newey West standard errors (3# lags) to account for the fact that some missing observations in the dependent variable were linearly interpolated. The polling company that collected the data reports three observations per year. The interpolation might induce serial correlation and the Newey West standard errors can insure that the main inferences from the models are not driven by autocorrelation. Model 2, similarly, presents a Prais-Winsten generalised least square model to account for residual autocorrelation. Both models in Table 2 use the decomposed measures of the Misery Index, i.e. inflation and unemployment, and the results suggest that the main driver of economic voting is the levels of unemployment. This should be anticipated as the actual levels of inflation have stayed low due to the decrease in demand. Finally, the

decomposed specification in Table 2 brings about the same results when plugged in the model specification reported in Table 1.

**TABLE 3: Time Series Generalized Least Square Models of Governing Party Support**

DV: GovernmentSupport <sub>t</sub>	(1)	(2)
GovernmentSupport <sub>t-1</sub>	0.886*** (0.065)	0.790*** (0.108)
ObjectiveEconomy <sub>t-1</sub>	-0.436*** (0.145)	-0.531** (0.199)
Election	0.355 (0.963)	-0.632 (1.258)
Events	-0.104 (0.892)	-0.409 (0.688)
Trend	-0.035 (0.024)	-0.038 (0.037)
Imfvote(May2010)	-4.331*** (1.067)	-5.684** (2.185)
Constant	10.117** (3.780)	14.734** (5.945)
N	2000Q2-2012Q1	2000Q2-2012Q1
R <sup>2</sup>	N/A	0.84

Note: Heteroscedasticity Robust standard errors in parentheses

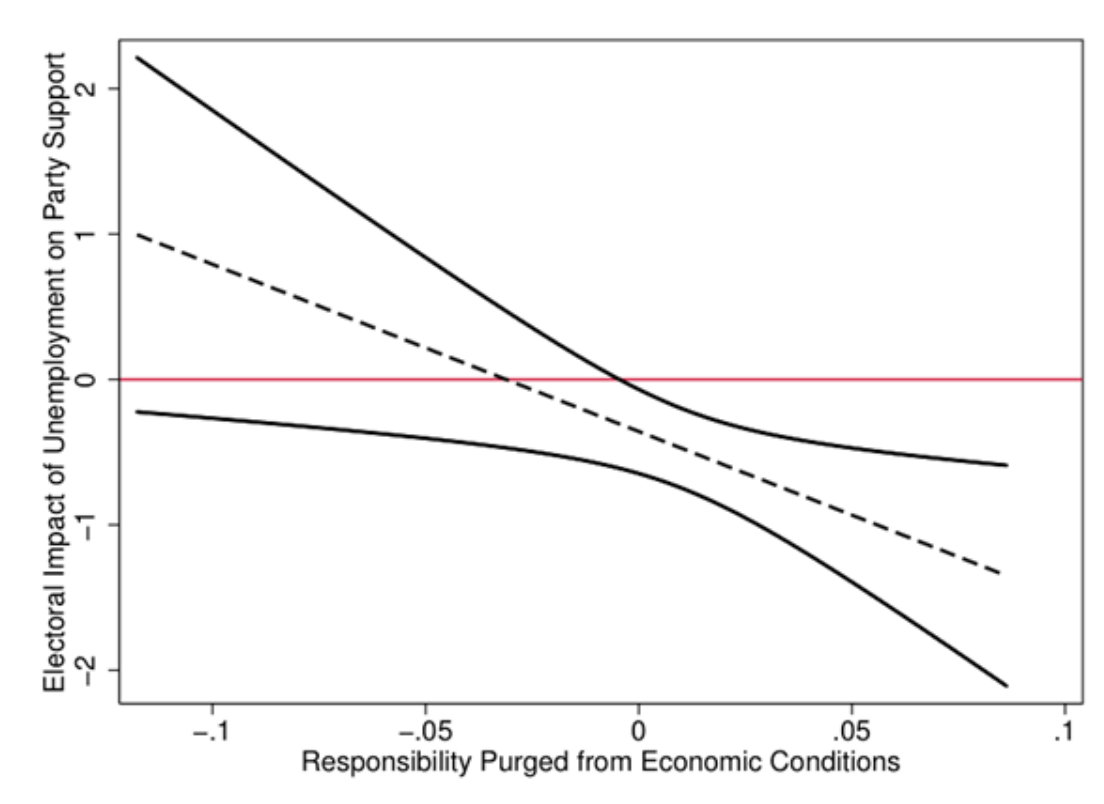
\*\*\* p<0.01, \*\* p<0.05, \* p<0.1

The second set of analysis corresponds to Table 2 and Figure 4 which need further discussion. The recent work at the individual level from Lobo and Lewis-Beck (2012) basically shows that voters who think that the national government is responsible for economic out- comes are more likely to vote on the basis of subjective economic considerations. The model in Table 3 examines the same relationship but from a dynamic perspective substituting subjective economic perceptions with the real economy.



However, the relationship might be more complex. Is it realistic to argue that Responsibility “truly” conditions economic voting? Many would argue that the interaction term is a mere multiplication of unemployment by itself. In effect, during the period when unemployment increased so rapidly, the anti-EU sentiments also increased making the multiplicative relationship non-causal and spurious. To test that point of view I purge the Responsibility variable from its economic (i.e. unemployment) determinants and then plug it in to the model specification. This way the interaction term captures the true covariance between public opinion and the economy rather than representing the mere multiplication of unemployment by itself.

**FIGURE 5: Economic Voting Conditional upon Purged EU/National Responsibility**



The conditional relationship presented in Figure 5 shows a picture identical to the plot in Figure 4. Economic voting is still conditional upon responsibility perceptions even when responsibility is purged from its economic antecedents.<sup>17</sup> For reasons discussed below, the relationship presented in Figure 4 is intuitively valid when responsibility is measured without any manipulations (i.e. as in Table 2).

The economy is the single most important contextual factor that not only determines government popularity in contemporary democracies, but also exerts indirect effects on political considerations that tend to correlate with party support. Economic conditions correlate with party identification (MacKuen, Erikson and Stimson, 1989), perceptions of competence (Green and Jennings, 2012), movements in the policy mood (Bartle, Dellepiane-Avellaneda and Stimson, 2011). Similarly, the simultaneous correlation between economics and vote intentions and perceptions of responsibility with economics denote the dramatic change in Greek politics after the economic crisis. The movements in those series are by no means distinct, but they do represent the aggregate change in the way the Greek electorate thinks about responsibility and how this, in turn, modulates the overtime patterns in electoral accountability. On top of that, a careful inspection of Figure 1 that displays the Responsibility time series and Figure 4 that plots the economic vote would affirm that the economic vote was heightened in periods when the proportions saying Greece should be responsible were as many as the proportions saying that the EU should resolve domestic

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<sup>17</sup> When predicting vote intentions from unemployment and responsibility, both variables exert statistically significant effects. When the Responsibility measure is substituted by its purged equivalent, it ceases to be significant.

issues. Such periods come before quarters we observe economic voting as this is depicted in Figure 4. This is the case for the first two quarters of 2005 when there is a sharp decline in the rolling coefficient estimate. For the second quarter of 2008a similar increase in economic voting (i.e. decline in the line) renders a statistically significant effect. In both cases, Greece is not under a binding international agreement and not visibly affected by the current crisis.

## 5. Discussion

Even though studies like this one appear regularly in peer-reviewed journals, the Greek data explored here offer the unique opportunity to examine a democracy before and during an economic crisis. The most important aspect of this period is that coincides with an unprecedented limitation of the room to propose and implement policies imposed by the IMF/ECB/EU bail-out loan conditions. The empirical findings of the article draw an interesting, if not peculiar, portrait of contemporary Greek politics. The peculiarity is based on the fact that before the international interventions democratic interactions in Greece were loose, making Greece an outlier in the prolific literature on accountability (Bellucci and Lewis-Beck, 2011). Moreover, during the period when we do observe economic voting, both theory and (for many scholars) intuition would predict lower levels of accountability.

Why theories about globalisation and accountability made false predictions about Greece (and perhaps other democracies)? Given that a portion of this literature is based on the 'room to manoeuvre' thesis, this finding should be regarded as an anomaly. To be sure, the room to

manoeuvre is not wrong and both the empirical results that support it are robust and the actual theory entirely plausible. However, when economic conditions change so dramatically over such a short period, the manoeuvrability condition might exert a curvilinear (U-shaped) impact. In other words, economic voting is high when national governments have full control over the economy (fully closed economies) and when international institutions fully take over the economic programme implemented by the government. In the middle points, which correspond to open economies with limited room to influence economic policy but with some room to avoid the blame for bad outcomes, economic voting is being suppressed. It is undeniable that the recent crisis is an excellent opportunity to test these theoretical implications. In addition to this paper on Greece, more research on Spain, Portugal, Ireland and Italy would further our understanding of how the crisis changes the way accountability works.

If the grievances asymmetry hypothesis is correct and voters are better at punishing as compared to rewarding a government, it could be that what the paper finds for Greece is just a function of the asymmetric nature of economic voting. This is not unreasonable and the volume of economic decline makes the argument more plausible. On this account, the disproportionate punishment of the government is the product of the abrupt and unprecedented decline in all economic indicators. When unemployment doubles in just over a year, voters will not respond to the government's effort to avoid the blame and will punish it irrespective of the room to manoeuvre.

The results are in line with the above claim but also show that before the crisis there was no substantive pattern of reward or punishment in the Greek electorate. A good scenario is that Greece was moving with the financial tide and thus economic benchmarking (Kayser and Peress, 2012) made it unnecessary to hold the government accountable. When the international comparisons were against the Greek economy (i.e. asymmetric decline), the Greek electorate started placing (more) weight on the real economy. A more worrisome scenario aligns with some of the conventional allegations about pre-memorandum Greece and clientelistic party politics on which personal welfare was not directly related to national economic improvements. Unfortunately for Greece and its citizens, agent-based models of accountability show how dangerous this pattern is. Governments have incentives to deliver a good economy only when voters decide on that basis.

Recent works in political psychology offer a useful angle to understand why we observe such an abrupt change in the way the Greek electorate voted. According to this literature, voters have two systems that guide the way they engage in politics. The first system (called disposition system) corresponds to emotions like enthusiasm while the second pertains to emotions like anxiety fear and anger (surveillance system) (see Marcus et al 2000; Neumann et al., 2007; MacKuen et al., 2010). These studies have found that the disposition system of enthusiasm encourages habitual behavior and reliance on prior dispositions and partisan attachments. The surveillance system, on the other hand, which is triggered by fear and anxiety, tends to induce political deliberation, effortful thinking and makes citizens open to new information. To link this with accountability, the “enthusiasm” years made the Greek

electorate less responsive to economic reality, but when their surveillance system was activated the agents of the economic downturn were heavily punished.

The paper also shows evidence that after the bail-out agreement the Greek electorate changed the way they assign responsibility for important issues like the economy. The actual pattern here is interesting. The smaller the room to manoeuvre, the more voters think that the Greek government should be responsible without supranational interventions. It appears that the Greeks not only punished the government for poor economic performance, but also for allowing those international interventions. Had those interventions been successful, however, perhaps no punishment would have followed. This is an important finding that is in line with recent research at the individual level (Anderson, 2006; Lobo and Lewis-Beck, 2012; Hobolt, Tilley and Wittrock, N.d.).

Moreover, it appears that the distribution of responsibility nicely maps the ideological divisions in contemporary Greek politics. What appears in Figure 1 is a good approximation of a new and powerful political cleavage in contemporary Greek politics that will be there for some time to determine voting behaviour and, consequently, public choices. Although Greeks still believe that the country's future is in the Eurozone (around 70% in favour in public opinion polls), they cast serious doubts about the role they want the European Union to play in deciding and implementing domestic policy. In terms of electoral choices, party attitudes towards Europe (and the Memorandum in general) will be the

primary cue for voters to evaluate economic and political information and make up their minds in future elections.

Finally, there is one question that is difficult to answer. If accountability is a sign of healthy democratic interactions, is it the case that Greek democracy is healthier after the international interventions? The immediate answer is no. Greece still cannot decide for its economic policy while many of its parliamentary parties do not conform to the rule of law. During the two recent elections turnout declined, in the May 6 election about 18% of the electorate did not see their choices in parliament, while 7% chose the ultra-nationalist (and not fanatically democratic) Golden-Dawn party. With economic projections for 2013 expecting unemployment near 30% or more (currently at 25%) and the Greek political system currently looking extremely fragile, any political prediction would be rather gloomy. It appears that the post mortem accumulative punishment taking place will produce more crises, of different sort. The mere fact that the EU is a constitutive partner of the Troika makes the solutions harder and complicates the future political developments in Greece.

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