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The Buck Stops over There? Benchmarking Elections in the Open Economy

Mark Andreas Kayser and Michael Peress

5.1 Introduction

Few topics in the study of democratic governance retain scholars' enduring interest like the economic vote. Interest in how voters hold elected officials accountable for economic outcomes abides for the simple reason that it is the most direct evidence that elected officials are indeed subordinate to voters. This empirical regularity is as reassuring to democratic theorists as it is worrisome to incumbents, for it demonstrates responsible evaluation and control of the governing by the governed. Recently, however, proponents of democratic accountability have had to worry about a growing mismatch between increasingly global markets and territory-bound governments. When trade, on average, constitutes over half of GDP in many developed countries and when global capital markets are larger and faster than ever before (Frieden 2006), one can legitimately wonder how much influence domestic policymakers have over their national economies. Moreover, when national economic performance is increasingly driven by international economic trends emerging from transactions in diffuse global markets, how do voters evaluate the economic performance of their geographically constrained domestic governments? Can they distinguish between national and international economic variation, or do they arbitrarily punish governments for economic developments that originate abroad?

The most important discovery in the study of voting under globalization—a young but growing research area—is the finding by Hellwig (2001) that voters respond less to the economy in contexts of greater economic integration (also confirmed in Hellwig and Samuels 2007; Duch and Stevenson 2008).[1] Stated differently, the economy influences electoral support for the

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government less in economically globalized settings. This is good news for democratic accountability: if voters indeed calibrate their electoral punishments (or rewards) to the degree of influence elected officials have over outcomes, the link between governmental performance and electoral outcomes remains unbroken. Governments remain bound to the interests of their citizens who, in turn, hold elected officials more accountable in policy areas in which governments still exert strong influence on outcomes (Hellwig 2008a).

The findings of an attenuated economic vote under globalization matter no less for a fundamental question of voter behaviour. The sophistication of voters necessary to ration out punishments or rewards in proportion to government responsibility for outcomes stands in sharp contrast to a long series of findings that voters are poorly informed and unsophisticated. Arguments that voters generally discount the economy under globalization (Hellwig 2001, 2008a) or that they are sufficiently informed and able to extract a government competence signal from comparisons of economic variances across countries and over time (Duch and Stevenson 2010) offer a conspicuous counterweight to other findings on voter behaviour. Research going back to the 1960s has depicted voters as poorly informed (Campbell et al. 1960; Butler and Stokes 1974) and unduly influenced by recent (Achen and Bartels 2004) or irrelevant events, such as the results of local sports matches (Healy et al. 2010). Scholarship on electoral accountability in other areas of diminished incumbent influence has suggested that voters are insufficiently sophisticated to distinguish between outcomes within and beyond the government's control. Voters have been shown to punish incumbent governors in the United States for national economic trends (Chubb 1988; Hansen 1999), subnational officials in Argentina for the performance of presidential administrations (Gelineau and Remmer 2006), and even Woodrow Wilson's 1916 re-election campaign in the counties of the New Jersey shore for a string of inexplicable shark attacks (Achen and Bartels 2002). How does one reconcile these contrasting arguments about voter information, sophistication, and behaviour? Are voters, in general, informed and sophisticated or myopic and manipulable?

We argue that the attenuation of the economic vote under globalization does not require sophisticated voters per se but is at least partly a mechanical outcome of cross-national benchmarking in aggregate voting decisions. As Kayser and Peress (2012) demonstrate, voters respond more to the difference in their country's economic performance relative to comparison countries than they do to the level of economic performance itself. Voters 'benchmark.' That is, they punish incumbents more for a weak economy when other economies are booming than they do for an identical performance when comparison economies are contracting. Any given level of economic growth is not innately good or bad; for that determination to be made it must be

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compared with other rates of growth across time (Palmer and Whitten 1999) but also across borders. Voters might make these comparisons directly—in which case they would be quite sophisticated—or they might simply respond to the media and sophisticated cue-givers that report more positively on an economy when it is outperforming others—in which case they need not know anything about globalization or economic performance abroad.[2]

Benchmarking influences the economic vote under globalization because international economic integration influences the benchmark. As international economic ties deepen, co-movement in economic performance grows and deviations from international performance diminish. Precisely that portion of economic performance that matters most for the economic vote—deviations from an international benchmark—diminishes, on average, under globalization. Thus, voters need not (and as we show, do not) respond less to the economy under globalization; the overall size of the economic vote declines because the portion of the economy to which they respond has shrunk. Deviations from the growth rates of other economies are smaller in globalized settings and thus constitute a smaller component of the overall growth rate. What the attenuated economic vote under globalization therefore shows is not sophisticated voting behaviour but simply smaller deviations from international benchmarks. When open economies do deviate dramatically from comparison countries' performance, we expect and find that the economic vote is undiminished.

5.2 Theory and Literature

5.2.1 *Globalization and Politics*

Research on the consequences of greater international economic integration for policymaking is well established in both political science and economics. An expansive literature investigates, among other things, the implications of economic globalization for the policy preferences of the left (Garrett 1998; Boix 1998), the political alignment of factors of production (Rogowski 1989), and the size and role of the welfare state (Cameron, 1978; Rodrik 1998). Curiously, however, very little work considers the implications for politics, per se, especially when understood as electoral politics.

This gap is most evident in the 'compensation literature' that investigates whether and how governments insulate voters from the economic insecurity brought about by international economic liberalization. A few scholars have begun to fill in the missing link between economic integration and voter response that came to prominence when Iversen and Cusack (2000) pointed out that globalization, in fact, reduces the volatility in wages and prices that scholars claim drive demand for more social protection. Most notably, Scheve

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and Slaughter (2004) have shown that perceived employment insecurity increases under globalization—at least among workers in Britain in response to foreign direct investment. Rickard (2006) has argued that worker demands for compensation increase with the degree of labour immobility in a given market. More recently, Walter (2010a) has completed the causal chain by demonstrating that workers who feel greater job insecurity due to globalization are also more likely to vote for social democrats (in Switzerland) who, in turn, presumably support an expansion of the social safety net.

Within the political economy literature, such explicit consideration of voter behaviour is, regrettably, quite rare. A small, and arguably growing, literature has begun to consider the consequences of globalization for electoral politics broadly defined (see the review in Kayser 2007), but it is only with an influential article by Hellwig (2001) that a scholar first considered the relationship between globalization and electoral accountability. In attempting to solve the puzzle posed by Paldam (1991) about why estimates of the economic vote are highly unstable in cross-national samples, researchers turned their attention to the moderating effect of context: here institutional and party-political features (Powell and Whitten 1993; Whitten and Palmer 1999; Nadeau et al. 2002) reduce governmental clarity of responsibility for outcomes or where the partisan attachment of electorates themselves make voters less responsive to economic outcomes (Kayser and Wlezien 2011), we can expect a weaker economic vote.

Globalization also constitutes context. Hellwig, first in 2001 and then with Samuels (Hellwig and Samuels 2007), has established a robust relationship between the magnitude of the economic vote and international economic flows. Admirably, the papers differ substantially in their data, methods, and measures, building confidence that the relationship that they find is not just an artefact of the data or methods. The first paper employs pooled individual-level election study surveys pooled from nine developed countries (CSES Module 1). Binary logit regressions of votes for a governing party (or, in presidential systems, the party of the president) on retrospective economic perceptions conditioned on trade openness show that voters in more trade-exposed countries hold governments less accountable for weak economies than do their less open counterparts. Interestingly, Hellwig also establishes several other individual-level relationships that shed light on the likely mechanism: a statistically significant decline in voter responsiveness to the (perceived) economy only materializes among voters who are highly educated, not a member of a union and/or work in the private and tertiary industrial sector.[3] Fernández-Albertos (2006) finds that international economic integration only reduces electoral accountability for the economy for left-wing governments.

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Critics might rightly question the dependent variable and the two key economic variables. Predicting votes for any member of a governing coalition confounds voter attribution of responsibility for different parties. Scholars have demonstrated high variation in which governing parties are punished in weak economies (van der Brug et al. 2007). Variables on the right-hand side are also open to question. Trade openness—(exports + imports)/GDP—is only one measure of globalization. With respect to perceived economic performance, variation in individual-level perceived economic measures (a) cannot capture objective economic performance which does not vary across individuals and (b) is likely endogenous to partisan vote intention. Although subject to ongoing academic debate, considerable research shows that voters' perceptions of the economy often reflect their political preferences: when co-partisans are in office their economic perceptions are positively biased and when rival parties govern their economic perceptions are negatively biased (see, for example, Wlezien et al. 1997; Duch et al. 2000; Evans and Andersen 2006).

Hellwig and Samuels (2007) circumscribe such concerns in aggregate level regressions that employ objective economic data (real GDP per capita), two measures of economic globalization, and, as a dependent variable, the percentage of the vote received by the party of the head of government in seventy-five democracies over twenty-seven years.[4] Duch and Stevenson (2008, chapters 5–7) further buttress this claim, albeit with a different interpretation.[5] They note that globalization implies an increase in the ratio of the number of non-electorally dependent decision-makers (NEDDs) to electorally dependent decision-makers (EDDs) that consequently weakens the competency signal of economic outcomes.[6] EDDs have less influence on outcomes as the ratio of NEDDs to EDDs increases, decreasing the effectiveness of policy outcomes for assessing the competence of elected officials. Empirically, their claim is observationally equivalent to that of Hellwig and Samuels (2007): the economic vote should be weaker where international economic integration is greatest. Using a two-stage multi-level model in which they first estimate the magnitude of the (perceived) economic vote in each country-election that they then regress on variables that capture the ratio of NEDDs to EDDs, they find bivariate relationships showing that the economic vote recedes with increases in trade openness, the size of government, a measure of corporatism, the density of governmental regulation, and a composite measure of the extent of the state sector.[7]

5.2.2 *Openness as Context: The Missing Mechanism*

All of these scholarly works showing attenuated accountability under globalization offer results that are carefully estimated and persuasive. They also do

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not show that voters respond less to economic shocks that originate abroad. We can believe with reasonable cause that the economic vote is weaker in more open economies. Just why this is the case, is not as clear.

Consider the variety of mechanisms that could deliver the same observationally equivalent outcome, an attenuated economic vote in more globalized settings. First, informed and sophisticated voters might observe that governments have less influence on economic outcomes and consequently hold them less accountable. A sophisticated version of this argument appears in Duch and Stevenson (2010) in which voters extract a signal about incumbent competence by comparing the variation of economic performance between countries. One may be sceptical that voters possess such capacities but it is worth noting that not all voters need be sophisticated. Recall that Hellwig (2001) found that only highly educated voters were less influenced by the economy as trade openness increased. A large effect in a subset of votes can move the mean effect for all.

Alternatively, voters might be insufficiently sophisticated to compare cross-national economic outcomes themselves, but they might nonetheless harbour a less articulate sense of state disempowerment in economic matters. Media discussion of globalization, the shrinking role of the state and similar topics might be more pervasive in more globalized countries, leading voters to attribute less influence over the economy to the government. This mechanism most closely resembles the perspective offered by Hellwig (2001) and Hellwig and Samuels (2007) but could only be tested with media studies or survey research of voter opinion. Hellwig et al. (2008) partly address this question via experiments conducted on a sample of US participants. They find that a substantial minority of participants—particularly Republican partisans and educated voters—hold national and international market forces to be more responsible for the performance of the economy than elected officials. With no variation over the extent of globalization possible in a single-country study, however, it is not possible to see whether this proportion changes in more open settings. Priming participants to think about globalization had no effect on responsibility attributions, casting some doubt on whether globalization does introduce a sense of state disempowerment and suggesting that partisan ideology—Republicans believe in the centrality of markets—and education—informed voters are more aware of economic policy limitations— drive the main result. Jack Vowles (2008) addresses this question more directly and arrives at similar and unambiguous results. When asked whether 'who is in power can make a difference', voters in forty countries do not respond any more negatively in countries with higher levels of economic openness. Research gives good reason to suspect that globalization has not led voters to attribute any less responsibility to governments for the performance of the economy.

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A plausible third explanation, albeit not truly a mechanism, for the attenuation-under-globalization results could be measurement and research design. The previous studies that demonstrate the diminished economic vote under globalization uniformly test the effect on the economic vote of a measure of economic activity as a proportion of GDP rather than testing the effects of the actual economic shocks. Thus, they effectively treat globalization as a context in which the economic vote is estimated rather than a process that can be directly tested. Simply examining how the extent of national economic integration moderates the effect of economic variation on the vote is worrisome because any measure of economic activity divided by aggregate economic output (GDP) will likely be correlated with country size. Larger countries, meaning larger economies, will look less open in any measure of openness that places GDP in the denominator (Leamer 1988; Lee 1993). Country size, in turn, is correlated with many other features of states that could govern how responsive voters are to economic outcomes. Researchers have tied country size (usually GDP) to the proportion of government spending in the economy (Wagner 1911; Lamartina and Zaghini 2011), to the type of electoral system—PR is more prevalent in small countries (Rogowski 1987)—and, by extension, to partisan bias (Powell 2002; Iversen and Soskice 2006). Larger countries also have larger parliaments, on average, (Taagepera and Shugart 1989) with more access points (Ehrlich 2007) and different patterns of distributive politics (Weingast et al. 1981). It is possible that openness is picking up the influence of one or multiple of these variables or of another influence yet to be considered. Country size, for the reasons just mentioned, likely also correlates with many common measures of clarity of responsibility (e.g., Powell 2000). Since no model that includes openness controls for clarity of responsibility or its components, we do not know. Certainly a more direct test of the mechanism is desirable.

5.2.3 *An Alternative Explanation*

In the paper that follows, we employ the first test of the attenuation result that does not treat openness simply as context. In doing so, we also test for a rival mechanism to those outlined above. Recent research by Kayser and Peress (2012) has demonstrated that much of the economic vote is driven by cross-national comparisons. A given rate of growth, or other measure of economic performance, is not innately good or bad. What categorizes it as such are comparisons with benchmark countries (Kayser and Peress 2012).[8] Voters, thus, might reward elected officials for a 1 per cent growth rate when other countries are in recession but cast them out of office for the same growth rate

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if comparison countries are booming. In short, when countries underperform their peers (the 'benchmark'), voters tend to punish their leaders; when countries outperform their peers they reward the leading party in government.

Interestingly, the benchmark itself—the component of economic performance common to the peers and the given country—has little to no effect on the vote, suggesting that the results of the traditional economic vote emerged because aggregate measures of economic performance (e.g., economic growth) are correlated with benchmarked measures (e.g., deviations from average economic growth among peers).

It is not the case, however, that voters are sufficiently informed and cognitively sophisticated to draw these comparisons themselves; rather, Kayser and Peress show that high-information voters are no more likely to benchmark than other voters. What drives this benchmarking behaviour seems to be 'pre-benchmarking' by the media. Deviations from the economic performance of comparison countries—but not the international benchmark performance itself—are strong, positive, and significant predictors of the proportion of positive economic stories.[9] The media depict a given economic performance as positive when it exceeds that of comparison countries and the voters then consume this information.

We also know a second important fact. Research in economics has shown that greater economic—and especially trade—integration leads to greater convergence of business cycles (Baxter and Kouparitsas 2005). Despite predictions—and some observations—of decoupling, economists are now able to talk about a 'European business cycle' and even of an 'international business cycle' (Artis and Zhang 1997; Kose et al. 2003). Greater business cycle co-movement, of course, has important implications for the benchmarking and, by extension, the economic vote. By definition, greater co-variation in business cycles implies smaller deviations from the performance of other countries.

For the purpose of illustration, consider a hypothetical world with perfect business cycles co-variation: if (1) all countries' economies grow at, say, 2 per cent, then the deviation of any given country from the international mean (or median, or trade-weighted mean, or neighbours' mean, or any other international benchmark) would be zero. Now, to continue with this example, posit (2) that, consistent with Kayser and Peress (2012), the overall economic vote is determined by a combination of a weak voter response to the growth rate common to all countries and a stronger response to countries' deviations from an international economic benchmark; further, posit (3) that the magnitude of the deviation component is unchanged from its historic level, some value greater than zero. Under such circumstances, the overall economic vote would equal the weaker voter response to the common economic benchmark,

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although the marginal effect of the deviations from the benchmark remained undiminished. The overall economic vote would diminish to equal the level of voter response to the 2 per cent growth rate common to all countries. Thus, the more a country's business cycle co-varies with that of comparison countries, the less the stronger determinant of the economic vote—voter response to deviations from the performance of other countries—matters. The marginal effect of deviations from an international benchmark is undiminished but the overall magnitude of the economic vote declines because deviations from benchmark economies simply constitute a smaller part of economic performance. Should an economic shock in a given country cause it to deviate from the performance of benchmark countries, however, we expect a large voter response, no matter how globalized the country.

More explicitly, suppose overall economic growth, y, in country i is represented as two components:

$$y_i = ay_{intl} + (1 - a)y_{local} \tag{1}$$

and $a \in [0, 1]$ is the proportion of yi that is common to the international economy (2 per cent in our example above). Suppose that greater economic integration leading to greater co-variation in national economies increases a, the proportion of the common international economic growth. We can then see that the local component, the deviations from the common international component must decrease. Thus, the marginal effect of $ylocal$ may be undiminished but the overall economic vote will nonetheless be attenuated if a increases. International economic integration diminishes the economic vote because it reduces precisely that share of economic performance that has the largest effect on the vote—deviations from the international economy—not because the marginal effect of either component of the economy has changed.

The implications of this proposition are both testable and important. This paper proceeds by first confirming the attenuation-under-globalization result and the two key empirical claims made above: that voters respond more to local deviations from the performance of benchmark economies and that deviations from such benchmarks have declined with greater trade openness. Next, by decomposing economic variation—real GDP growth—into its domestic and international components, we are then able to test the effect of international and domestic economic shocks directly. If voters indeed exonerate elected leaders for international economic influence on the economy, we should find that international shocks influence voters less in open settings. If, however, the overall economic vote declines primarily because economic deviations from comparison countries decline under globalization, we should find similar marginal effects of both local and international shocks in more and less open settings. Of course, these two mechanisms are not mutually exclusive.[10]

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5.3 Data and Method

5.3.1 *Data*

Our empirical analysis relies on the first two modules of the Comparative Study of Electoral Systems (CSES) project.[11] The first and second modules are an amalgamation of thirty-nine and forty election studies, respectively, with one of these studies being common to both modules. Combined, we observe individual-level results for seventy-eight elections across forty-three countries, twenty-two of which are developed states with a stable party system. These twenty-two countries offer thirty-eight election studies that form our individual level sample.[12] Each module ensured that a comparable battery of survey items was present among each of the election surveys and the project collected additional data on the electoral institutions and political parties in each of the studied elections. Because many of the survey items and coded items were common across the two modules, we were able to merge the two modules into one dataset.

The dependent variable in the analysis is the reported vote of the respondent. The CSES provided us with the respondents' vote for the president, the lower house, and the upper house when they were available in the country surveys. In countries with mixed electoral systems, it was possible for individuals to cast both a PR ballot and an SMD ballot, and both of these ballots were potentially available in the CSES. If a directly elected president or prime minister was on the ballot, we considered that vote in the analysis. Otherwise, we relied on the voter's choice in legislative elections. If two chambers were on the ballot, we used the lower house. If two tiers were on the ballot for the legislature, we selected the PR tier over the SMD tier, unless more than half of the allocation of seats to parties depended on the SMD tier. Our choice to use the vote for the president, when available, was based on the expectation that economic voting would be most relevant for the most visible office in the political system. In the case of presidential and semi-presidential systems, the most visible office was likely to be the president. Our choice of the PR vote over the SMD vote for mixed party systems was based on our expectation that voters would view parties rather than individual legislators as responsible for economic conditions in those countries where the president is not directly elected. Our choice to use the lower house in favour of the upper house was based on a prevailing pattern in most countries where lower house is more powerful than the upper house. Due to the prevalence of parliamentary systems among the countries in our study and the general availability of the lower house vote, the dependent variable was most often constructed based on the vote for the lower house.

We merged the survey data from the CSES with data on economic conditions. We calculated GDP growth as the percentage change in GDP between

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the quarter of the election and the same quarter in the previous year. Similarly, unemployment is the mean unemployment in the election quarter and the three preceding quarters. As multiple elections rarely fall in the same quarter, our technique of measuring the year up to the election quarter greatly increased the number of economic observations relative to the alternative of using calendar years. We use the Organisation for Economic Co-operation and Development (OECD) as our main source for the economic variables. Our economic variables were taken mostly from the OECD Quarterly National Accounts and supplemented with data from the OECD's Main Economic Indicators, the International Financial Statistics series from the International Monetary Fund (IMF), the Penn World Tables, and, where necessary, national sources. In a small proportion of cases we imputed quarterly data from annual data by assuming a constant rate of growth over the year.[13] Trade openness follows convention and is calculated as the sum of exports and imports, divided by GDP.

The CSES provided us with additional characteristics for the respondents and the parties. Characteristics of the parties were coded by the principle investigators (PIs) of the participating election studies. Expert placements of major political parties were reported on a 0–10-point ideological scale. These placements, in conjunction with the respondent self-placements, enabled the construction of a measure of policy distance between each respondent and each party. We constructed the policy distance as $Dist_{nj} = |PartyIdeology_j - Respondent\ Ideology_n|$.

5.3.2 *Method*

We analyse our data using a conditional logit model (McFadden 1974) grouped by individual. In election study s, our dependent variable takes on the values, $0, 1, 2, \ldots, Js$. Here, 1 through to Js denote the modelled parties and 0 denotes voting for one of the un-modelled parties, or the outside option. The parties that we included in the analysis as choices were those for which we observe estimates of the parties' placements. These, in turn, corresponded to the parties judged by the PIs for each election study to be important and generally included incumbent parties, parties that were expected to receive large vote shares, and new parties affiliated with a major political figure. The remaining parties were grouped together as option 0. Note that the choice set (i.e. the parties that the voters are able to vote for plus the outside option) varies across elections and that the size of the choice set (i.e. the number of 'important' parties) differs across election studies.

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5.4 Empirical Results

5.4.1 *The Economic Vote Under Globalization*

The attenuation of the economic vote under globalization is for all of the reasons discussed above undoubtedly an important finding in the literature. Before we turn our attention to its identification, however, we first rule out the possibility that it is an artefact of the data and methods employed in previous studies. Previous studies have found the attenuation effect using individual-level survey data with subjective economic data (Hellwig 2001; Duch and Stevenson 2008) and aggregate-level vote share data with objective economic data (Hellwig and Samuels 2007) but none, to the best of our knowledge, have tested for the attenuation-under-globalization effect with individual data and objective (non-perceived) economic data. We do that here, not only to check robustness to different data, but to verify that the attenuation result exists in our dataset before trying to identify its underlying mechanism.

Table 5.1 presents two basic models, both estimated with a conditional logit. Model 1 simply verifies the well-established economic voting relationships. Using a vote for the leader's party as the dependent variable and including controls for the ideological distance between individual voters and specific parties as well as the presence of candidates outside of the established party structure, we see that the growth rate in real gross domestic product increases the probability of voting for the leader's party while the

Table 5.1. The economic vote under globalization: conditional logit coefficients

LeadParty	LeadParty *Openness	
	(1)	(2)
Distance	−0.496	−0.498
	(0.004)***	(0.004)***
OutsideOption	−2.001	−2.001
	(0.024)***	(0.024)***
LeadParty	0.657	0.670
	(0.035)***	(0.035)***
Growth * LeadParty	0.104	0.149
	(0.007)***	(0.010)***
Unem * LeadParty	−0.008	−0.013
	(0.004)**	(0.004)***
Growth * LeadParty * Openness		-0.0005
		(0.00008)***
No. voters		42,049
No. elections		33
No. countries		18

**p < 0.05; ***p < 0.01.

unemployment rate decreases it. We use the vote for the leader's party, as opposed to options such as the vote for any party in government, partly to conform to previous studies but also because under some circumstances junior coalition members benefit from declines in the lead party's support. Non-interacted Growth and Unemployment terms are, of course, omitted because they are by definition zero.[14]

Model 2 shows the attenuation-under-globalization effect. Consistent with the earlier findings in the literature, we again see that the effect of the economy on the vote for the lead party drops as trade openness, our measure of globalization, increases. At the median level of trade openness in the sample, 72, the coefficient has dropped 16 per cent from its estimated level in the least open state (23, USA); by the 99th percentile—Ireland, a country with 169 dollars of imports and exports for every dollar of GDP—the esti-mated effect has dropped nearly 50 per cent.

Since the purpose of these regressions is simply to verify results established elsewhere and to set a foundation for our further investigations, we do not concern ourselves with robustness. As in previous studies, the attenua-tion-under-globalization effect emerges in our dataset. The question now is why.

5.4.2 *Decomposition and Benchmarking*

Our proposed answer to the question of why the economic vote diminishes as globalization increases emerges from the two empirical regularities discussed in section 5.2.3: cross-national benchmarking in the economic vote and busi-ness cycle convergence from globalization. Voters respond less to the interna-tional component of economic growth because the media report more positively (negatively) on the economy when it outpaces (underperforms) that of comparison countries. Economic globalization, however, increases the international component of national economic growth as national busi-ness cycles converge. Voters therefore do not respond less to deviations from the performance of benchmark countries. The aggregate economic vote is weaker in more globalized countries because deviations from comparison countries constitute a smaller proportion of economic growth.

Testing this argument requires a few steps. We explain how we decompose economic growth into its local and international components and then show that voters respond more to local deviations from an international benchmark.

In the following section, we confirm that the local component of growth does indeed diminish in environments with higher trade openness in our dataset. We are then prepared to pull the parts of our argument together in section 5.4.4 where we test the effect of the local and international

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components of growth on the lead party vote at varying levels of openness. First, let us discuss the decomposition of growth and consider some brief evidence of benchmarking.

We decompose economic variation into local and global (a.k.a., international) components in three separate ways, each with distinct implications for how voters compare performance across countries. In all three decompositions we simply subtract international economic performance—growth—from the respective measure of national economic performance such that:

$$y_{i,t}^{local} = y_{i,t} - y_{i,t}^{glocal}, \tag{2}$$

where i indexes country and t time. Voters that compare their country's growth with that abroad should reward incumbents when $y_{i,t}^{local}$ is positive—i.e., when national growth exceeds global growth—and punish them when it is negative. Local unemployment, in contrast, should decrease the incumbent's vote when positive and increase it when it is negative. The international component of real growth, $y_{i,t}^{local}$ should have no effect on the vote if all voters benchmark. If some but not all voters benchmark, or if all voters partially benchmark, we expect the international component to have an effect on the vote but a smaller one than the local component.

Of course, voters can compare national performance with numerous international measures. Are they more likely to compare local performance with that of larger (and more visible) countries? Are neighbouring countries, more prominent countries, or more internationally economically integrated countries more frequent or influential benchmarks than distant ones? The design of the international component will affect what type of benchmarking is captured. As in our previous work (Kayser and Peress 2012), we design the international component, $y_{i,t}^{local}$, in three distinct ways, each intended to capture one plausible comparison group for voters.

Our first measure of global growth is defined as the sample median for the year in which each given election took place. The international and national components of growth test whether voters compare national performance to an international performance measure that disregards the size, economic integration, or distance of other states. The median as a benchmark assumes both that there is a single global component which drives the correlation in economic performance across countries and assumes that all countries are equally affected by this global component. Our principal components measure relaxes these assumptions by allowing for two factors to drive growth and allowing countries to differ in their sensitivity to each of these factors. Using the principal components decomposition, we find that the first factor

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identifies a country's integration into the international economy and the second factor captures the different growth patterns found in North America and Europe vs. East Asia. It is also quite plausible that voters compare their national economies with larger and more proximate countries rather than with those that are more integrated into the international and regional economy or with the international median. Neighbouring countries are more likely to share a common language, culture, and history. Our third measure captures this by defining a country's global growth to be the trade-weighted average of other countries' growth rates.[15]

We are now ready to test for the effect of cross-national benchmarking in the economic vote. As our objective in this section is simply to demonstrate that benchmarking occurs, we only use the principal components benchmark in Table 5.2 below. These benchmarking results are, in fact, reproducing what we have already shown in Kayser and Peress (2012) using all three benchmarks and more details and robustness checks can be found there. Median and trade-weighted mean benchmarks will be used later in section 5.4.4 together with the principal component benchmark when we break new ground investigating benchmarking under different levels of trade openness.

Table 5.2 presents what we consider to be the key benchmarking result. Controlling for the ideological distance between voters and parties, the presence of candidates not affiliated with the mainstream party system and unemployment, we see that local growth, i.e., the deviation from the common international growth benchmark, is a positive and significant predictor of voting for the lead party. In contrast, the international component of growth yields a small positive effect that is not statistically significantly different from zero. Voters, or those who provide information to voters, respond most strongly to the national deviations from the economic performance of comparison countries.[16]

Table 5.2. Benchmarking: conditional logit, principal components decomposition

Variable	Coefficient	(Std. Err.) Distance
OutsideOption	−0.498	0.024)
LeadParty	−1.941	(0.194)
	0.691	(0.234)
Growth$_{local}$ * Lead	0.126	(0.047)
Growth$_{Intl}$ * Lead	0.073	(0.050)
Unemployment * Lead	−0.003	(0.029)
No. voters	40,260	
No. elections	31	
No. countries	17	

**p < 0.05; ***p < 0.01.

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5.4.3 *Business Cycle Convergence*

We have now seen that voters in more open economies hold leaders' parties less accountable for downturns (Table 5.1) and that much of the economic vote is driven by benchmarking (Table 5.2). When national economic performance deviates from that of other countries, incumbent leaders can expect a larger economic effect on the vote than when deviations are minimal. How, however, might such benchmarking explain the effect of globalization on the economic vote?

Economists have repeatedly observed that trade openness strongly predicts the convergence of national and international business cycles (Baxter and Kouparitsas 2005; Kose et al. 2003; Artis and Zhang 1997). More open economies experience greater co-movement with the economies of other countries with whom they trade. Consequently, we expect that more open economies should deviate less from the international economy. Figure 5.1 illustrates and confirms this effect using our decomposed growth variables. Local growth, which is simply the national deviation from the international growth rate as explained above, declines as openness increases. Since deviations can be both positive and negative, panel (b) presents the relationship using the absolute value of local growth on the y-axis. When a few observations demonstrate high leverage, it is good to confirm that they are not driving the relationship. Figure 5.2 tests robustness by replicating both panels of Figure 5.1 using only observations with openness $\left(\frac{imports + exports}{GDP} \times 100\right)$ less than 100. The relationship becomes even more negative.[17]

As discussed above, we argue that this relationship is key to understanding why openness attenuates the economic vote. Where openness is higher, economies deviate less from the international economy and local growth
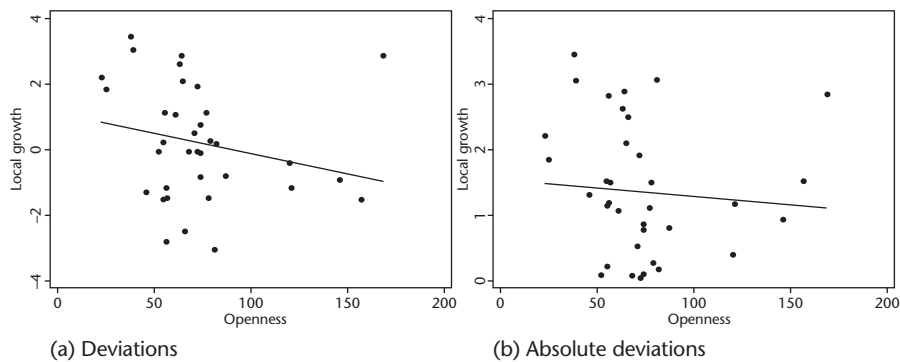

(a) Deviations   (b) Absolute deviations

Figure 5.1. Local deviations in growth from the international economy at different levels of economic openness

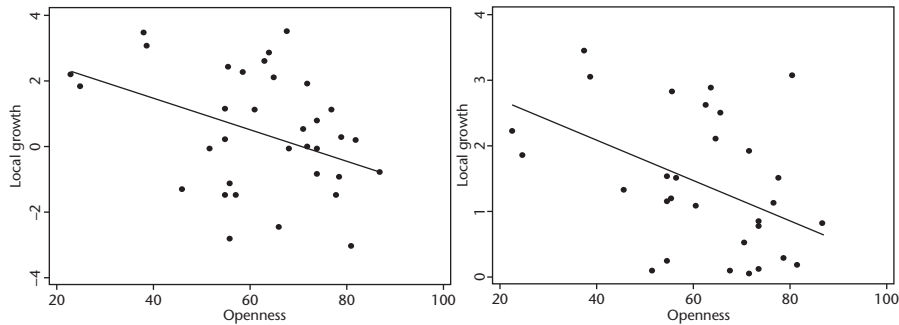**The Buck Stops over There? Benchmarking Elections in the Open Economy**

Figure 5.2. Local deviations in growth from the international economy for cases where Openness<100: principal components decomposition

constitutes a smaller proportion of overall growth. Since local growth is a stronger driver of the economic vote than the international component of growth, the overall effect of aggregate growth on the vote declines.

That the local component of growth accounts for a smaller proportion of economic growth in more open economies is again evident in the data. Splitting the sample at the median level of economic openness, 72, and calculating the ratio of the local component to the international component of growth in our sample shows an even split (1.04) between the two in less-open economies but a local share less than half of the international share (.47) in more-open economies. Growth, as a consequence of this dropping deviation from the international economy in more globalized settings, is increasingly driven by the international economy. As the international component of growth has a weaker influence on the economic vote, however, we can expect—as shown in Table 5.1—decreasing overall effect of the economy on the vote under globalization.

5.4.4 *Benchmarking in Closed and Open Settings*

Our previous results give us reasons to believe that voters respond most strongly to deviations from an international economic benchmark and also that these deviations from the international economy have declined under globalization. These two observations alone, however, cannot preclude the possibility that voters might also respond less to economic deviations in open settings. We turn to that question here.

Table 5.3 investigates how the effect of the local and international components of growth on the vote for the leader's party is influenced by international trade openness. Because of the complexity of interpreting a triple interaction, we first split the sample at its median level of openness (72) into low- and

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Table 5.3. Benchmarking in the open economy: local and international economic effects on the vote for the leader's party under varying levels of trade openness

	Low	PC High	All	Low	Median High	All	Low	Trade High	All
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Distance	−0.522 (0.025)***	−0.481 (0.042)***	−0.498 (0.024)***	−0.522 (0.025)***	−0.482 (0.043)***	−0.498 (0.024)***	−0.532 (0.026)***	−0.481 (0.042)***	−0.502 (0.025)***
OutsideOption	−2.171 (0.301)***	−1.657 (0.207)***	−1.940 (0.194)***	−2.172 (0.299)***	−1.653 (0.207)***	−1.940 (0.194)***	−2.146 (0.320)***	−1.653 (0.207)***	−1.915 (0.199)***
LeadParty	0.619 (0.307)**	1.069 (0.294)***	0.706 (0.232)***	1.007 (0.510)**	1.444 (0.333)***	1.021 (0.332)***	1.045 (0.295)***	1.003 (0.289)***	0.758 (0.205)***
Unem * LeadParty	0.001 (0.034)	−0.069 (0.029)**	−0.0005 (0.028)	0.0007 (0.028)	−0.063 (0.034)*	0.0004 (0.024)	−0.009 (0.028)	−0.066 (0.031)**	−0.006 (0.029)
Growth$_{local}$ * LeadParty	0.132 (0.064)**	0.143 (0.039)***	0.082 (0.084)	0.137 (0.059)**	0.141 (0.035)***	0.004 (0.094)	0.234 (0.069)***	0.122 (0.058)**	0.165 (0.125)
Growth$_{Intl}$ * LeadParty	0.133 (0.065)**	0.037 (0.065)	0.063 (0.056)	0.027 (0.128)	−0.083 (0.107)	−0.022 (0.091)	0.038 (0.059)	0.032 (0.060)	0.067 (0.056)
Growth$_{local}$ * Lead * Openness			0.0005 (0.0007)			0.001 (0.0009)			−0.0004 (0.0008)
No. voters	22,540	17,720	40,260	22,540	17,720	40,260	20,528	17,720	38,248
No. elections	19	12	31	19	12	31	18	12	30
No. countries	11	7	17	11	7	17	11	7	17

Principal components (PC), international median, and trade-weighted international mean benchmarks, conditional logit estimation.

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high-openness components for each of the three types of benchmarking that we consider.

The third model for each type of benchmarking—principal components, median, and trade-weighted mean—then includes the triple interaction of local growth with lead party dummy and trade openness using the full sample. We omit the triple interaction with the international growth component because of the weak results of this variable in the split sample models. Controls for the ideological distance between voters and parties (Distance), a leader's party indicator dummy (LeadParty) and an interaction between un-employment (Unem) and the leader's party dummy, account for the most obvious potential confounders.[18] An Outside Option dummy indicates elections in which voters could choose a candidate outside of the established party system.

The results show a different pattern than what one would expect if voters truly responded less to the economy in globalized settings. If voters discount the economy under globalization, then under greater openness one would expect an attenuated coefficient on either or both the international and local components of growth. In fact, the effect of local deviations from the inter-national economy, Growthlocal, are higher in more open environments in two out of the three types of benchmarking and the effect of the international component differs little between low and high openness environments and is statistically indistinguishable from zero in nine out of ten models.

Let us first examine the effect of local deviations. When the international benchmark is estimated via principal components or the median growth rate in the sample, voters actually respond more to local deviations from the benchmark in high- than in low-openness settings. It is better, however, to consider these coefficients statistically undistinguishable given that their con-fidence intervals overlap and the interactions remain insignificant in models 3 and 6. We clearly do not see a weaker response to local deviations from these first two types of benchmarks. The trade-weighted benchmark that compares countries with larger and more proximate trading partners actually shows a weaker response to local deviations in more open countries but, again, this effect is not statistically different from that in less open settings, as shown by both the overlapping confidence intervals and by the interaction in model 9.

The international component of the economy tells much the same story. At first glance, when one looks only at the principal component bench-marking, it seems like voters are indeed responding less to international economic shocks under high trade openness. Under low openness in model 1, voters show a positive and significant response to international shocks which diminishes to less than a third of its strength under high openness model 2. The confidence on the two coefficients, however, overlap and the

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coefficient on the international component of growth in model 1 proves to be non-robust in other specifications.[19] Models 1 to 9 seem to deliver the results most overall consistent with the evidence: the international component of growth has a very weak and statistically insignificant effect on the vote regardless of the degree of trade openness. Voters do not hold the leader's party less accountable for international economic shocks when trade exposure is high. In fact, they respond very little to international economic shocks at all.

These (non-)results are consistent with the argument that voters, as Vowles (2008) suggests, feel no less empowered under greater levels of globalization. Of more immediate relevance, however, these results demonstrate that voters are no less responsive to economic shocks—be they international or local in origin—at different degrees of globalization. Local deviations from international benchmarks influence the lead party's vote tally more than do international shocks, as is the case with non-decomposed growth, but both components of growth vary little across levels of trade openness. The international component of growth is of particular interest because it actually offers the first direct test of the globalization attenuation hypothesis. But voters do not respond less to international shocks under globalization. Rather, they respond similarly—and weakly—under less-open and more-open conditions. The attenuation of the economic vote under greater globalization seems to occur, not because voters respond less to a given stimulus, but because the proportion of the economy to which they persistently responded weakly—the international component—has grown.

In more precise terms, the similarity of voter response to the economy at different levels of globalization is consistent with the causal story advanced in Kayser and Peress (2012). Voters do not benchmark because they collect information and compare economic performance across countries. Rather, benchmarking emerges because the press 'pre-benchmark' when reporting on the economy. When France, for example, grows at 2 per cent in a given period, the press will report this as positively if comparison countries are performing worse. The same growth rate will be presented negatively, however, if the comparison countries are growing faster. Thus, because they are influenced by such patterns in media reporting, voters de facto benchmark and respond more to the deviations from the international benchmark than to the benchmark itself. Globalization produces the attenuation of the economic vote observed in previous research simply because the deviations from the core performance of the international economy diminish as business cycles converge under globalization. Thus, voters are as responsive as ever; they just have less to respond to in globalized settings.

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5.5 Conclusion

Possibly the most important result in the study of electoral accountability and, indeed, in the study of globalization in recent years is the finding by Hellwig (2001) and then Duch and Stevenson (2008) that the economic vote is attenuated under globalization. One measure of the importance of a finding is its implications and in this realm, the attenuation-under-globalization finding is particularly strong. As Kayser (2007) documents, very little research connects economic globalization directly to politics as opposed to policymaking. The attenuation result therefore opens up a new area of research with direct implications for how globalization influences the democratic process.

The specific finding that incumbent governments are held less electorally accountable for economic performance also raises additional questions about the quality of democracy under international economic integration. To paraphrase Cheibub and Przeworski (1999), the economic vote is the strongest argument for democracy. It is the best evidence that the governed hold those who govern them accountable for their performance. What then, does the attenuation of the economic vote under globalization mean for the functioning of democracy?

Finally, the attenuation-under-globalization finding also bears implications for our understanding of voters' information, cognition, and behaviour. As discussed more extensively above, a long literature going back to Campbell et al. (1960) has found voters to be generally poorly informed and not consistently optimizing in their behaviour. The attenuation-under-globalization results and some of the research explaining them offer evidence to the contrary. If voters are able to compare variance in economic performance across countries, as Duch and Stevenson (2010) claim, for example, then they must be both informed and sophisticated. Less cognitively demanding mechanisms also cut against the grain of much work on voter behaviour, albeit less dramatically. For voters to develop a general sense of government disempowerment in economic matters in states where globalization is advanced, they must also be aware of economic constraints on policymaking. Voters may be more informed and sophisticated than previously thought.

Many of the implications of the attenuation-under-globalization finding, of course, depend on the mechanism that drives it. As robust as the Hellwig (2001) finding is, the mechanism is nevertheless ambiguous. Hence the need for this paper. We offer the first confirmation of the attenuation finding using individual-level data and objective (not perceived) economic measures. In combination with other scholarship that has now tested this relationship with a wide variety of designs, methods, and samples, we can express reasonable confidence that the effect of the economy on the incumbent government vote is indeed weaker in more economically globalized countries. We then

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focus on the mechanism that engenders this result by decomposing economic growth into the portion common to other comparison countries (the benchmark) and country-specific deviations from the benchmark. This enables a direct test of the effect of both the international and local component of growth on the vote for the leader's party. Importantly, we find no differences in the size of the economic vote at different levels of trade openness for either of the components of growth. We conclude the attenuation-under-globalization result for non-decomposed growth emerges from another empirical regularity shown, albeit briefly, here. Globalization gives rise to convergence in national business cycles which, in turn, yields smaller local deviations from the economic performance of other states. This increases the share of international shocks in overall national economic growth and, consequently, reduces the effect of the economy on the vote since voters respond considerably less to the common international share of growth than they do to deviations from this share. In short, the effect of the economy on the vote is weaker under globalization not because voters respond less to the economy but because the economy contains a larger share of the component to which they respond the least.

If voters themselves benchmarked by comparing national economic performance to that abroad, then the implications of this paper for the functioning of democracy and voter behaviour would be little changed from those of Hellwig (2001) and Duch and Stevenson (2008). Voters would be informed and sophisticated and the principal–agent relationship between the governed and governments would remain unaffected by globalization if voters only held elected leaders accountable for the component of the economy under their control (Growthlocal). Our previous work on cross-border benchmarking in the economic vote, however, has shown that it is not voters who benchmark but the media who 'pre-benchmark' (Kayser and Peress 2012). Thus, the implications of this paper are mixed.

The attenuation-under-globalization finding remains one of the most important findings on the effect of globalization in recent years but our results here change its implication for the functioning of democracy and voter behaviour. If voters punish leaders' parties equally as much under varying conditions of globalization, as we find here, globalization poses little threat to electoral accountability. Deviations from the performance of benchmark countries may be smaller when the economy is more integrated but when large deviations do occur, they should elicit as large a voter reaction as before. The implications for voter behaviour, on the other hand, are less sanguine. If benchmarking emerges from naive voter responses to 'pre-benchmarked' economy reporting in the media, the attenuation-under-globalization finding offers little hope to those eager to resuscitate voters' reputation. Voters may be as poorly informed, temporally myopic and cognitively constrained as found

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elsewhere and nevertheless deliver the seemingly sophisticated behaviours of benchmarking and attenuation-under-globalization.

Acknowledgements

Notes

1. But also see Fern'andez-Albertos (2006); Sattler et al. (2010).
2. Kayser and Peress (2012) find evidence of this latter mechanism, as described here.
3. No country fixed effects or traditional context controls—e.g. clarity of responsibility—are included in the models interacting economic perception with openness, probably because of insufficient cross-country observations, but this paper is in many ways agenda-setting.
4. Perhaps more surprisingly in this design, country fixed effects and contextual controls are again absent.
5. Although the source of this relationship is disputed (Alesina and Wacziarg 1998), it is an empirical regularity that more open economies spend more of their gross output on government (Rodrik 1998). More open economies also tend to be wealthier, so one can also ask whether this is an incidence of Wagner's Law.
6. EDDs are elected officials of the national government and members of the bureaucracy responsible to them; NEDDs are all other decision-makers who can influence economic outcomes but are not electorally accountable to a nation's voters: entrenched bureaucrats, firms, individuals, interest groups, international organizations, foreign leaders and others (p.139–40).
7. A pooled single-stage multilevel model produces similar results for three of these measures (see Table 7.1).
8. As well as comparisons with expectations based on past performance (Palmer and Whitten 1999).
9. Albeit in a single-newspaper sample: *The Times* of London from 1986 to 2000.
10. That is, the marginal effect of the international component could diminish with greater openness while the marginal effect of the local deviation remained unchanged, suggesting that both mechanisms obtain.
11. We note that our work here relies on data we collected for another project (Kayser and Peress 2012) and this section draws heavily on the discussion in that paper. Further details on our data and method can be found in that article.
12. Australia 1996, 2004; Belgium (Flanders) 1999; Belgium (Wallonia) 1999; Belgium (combined) 2003; Canada 1997, 2004; Denmark 1998, 2001; Finland 2003; France 2002; Germany 1998, 2002; Great Britain 1997, 2005; Iceland 1999, 2003; Ireland

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2002; Italy 2006; Japan 1996, 2004; Netherlands 1998, 2002; New Zealand 1996, 2002; Norway 1997, 2001; Portugal 2002, 2005; Spain 1996, 2000, 2004; Sweden 1998, 2002; Switzerland 1999, 2003; United States 1996, 2004.

13. $r = (\ln A - \ln P)/t$.

14. This is standard practice. If no characteristic is assigned to a party via interaction, then one is just estimating the effect of a variable on all parties.

15. To simplify the calculations, we only consider each country's five largest trading partners.

16. Note that the United States and Switzerland are omitted from all benchmarking samples, the former because it is large enough to influence international markets and the latter because of its collective executive.

17. More specifically, $\beta = -0.012$ and the s.e. = 0.00008 in Figure 5.1(a) and $\beta = -0.048$ and the s.e. = 0.0002 in Figure 5.2(a).

18. See Kayser and Peress (2012) for evidence of benchmarking's robustness to more extensive specifications.

19. For example, it drops to 0.042 (s.e.= 0.067) when two correlated variables, unem*-lead and $Growth_{local}$*lead are omitted.