The impact of the economy on the electoral performance of governments

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Abstract

It is a widely recognized assumption among politicians, political commentators and social scientists that elections are referenda on the economy. The belief is that voters will reward the government when economic conditions are good, whereas they will punish it in times of economic recession. This more or less universal "truth" has been subject to an extensive amount of empirical research, in which students have attempted to define which types of conditions are most relevant for the economic vote. Much of this research indicates that there is a relationship between the economy and the vote, but the direction and the strength of this relationship is complex and less intuitive than the simple notion of economic voting would predict. Moreover, the electoral fortunes of incumbent parties are not conditioned by economic factors alone. Systematic research across countries reveals that electoral performance varies according to system-specific variables such as type of government, critical events and changes in the political environment of political parties.

This paper explores the impact of the economy for the electoral rewards and punishments of incumbent parties in a Northern European context. First, to what extent is the "adverse incumbency effect" in parliamentary systems conditioned by economic factors? Second, under which conditions is the economy a constraint on incumbent parties? And finally, what is the overall impact of the economy compared to other types of issues, e.g. factors related to social structure, policy issues and ideology? Evidence suggests that on the aggregate the negative incumbency effects are related to economic factors, but these effects are less intuitive and straightforward on the individual level. In the context of the Norwegian welfare system, the overall effect of the economy on the vote has been modest. With the establishment of the oil fund, the level of support for incumbent parties has increasingly been related to voters' expectations of benefits they may get from the oil revenues. Dissatisfaction with government policies has turned into a form of resource curse for Norwegian governments. The elections of 2001 and 2005 demonstrate that these factors are linked to the saliency of welfare issues and to voters' perceptions of government performance on these issues. Due to the economic shock in 2008 the negative trend for incumbent parties was reversed in the 2009 parliamentary election. The financial means available to the Norwegian government through the oil fund gave it the opportunity to show "muscles" in a situation where the economic recession created insecurity among many voters. In so doing, the government was able to meet a long-standing demand among many voters to use more of the oil money to solve domestic problems. In this context, the oil purse turned into a "blessing" rather than a "curse".

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Former British Prime Minister, Harold Wilson, once stated that: "All political history shows that the standing of a Government and its ability to hold the confidence of the electorate at a General Election depend on the success of its economic policy" (in Dalton, 2004: 126). It is a widely recognized assumption among politicians, political commentators and social scientists that elections are referenda on the economy. The belief is that voters will reward the government when economic conditions are good, whereas they will punish it in times of economic recession. This more or less universal "truth" has been subject to an extensive amount of empirical research, in which students have attempted to define which types of conditions are most relevant for the economic vote. Much of this research indicates that there is a relationship between the economy and the vote, but the direction and the strength of this relationship is complex and less intuitive than the simple notion of economic voting would predict (see e.g. Lewis-Beck and Paldam, 2000; van der Brug et al., 2007; Duch and Stevenson, 2008). Moreover, the electoral fortunes of incumbent parties are not conditioned by economic factors alone. Systematic research across countries reveals that electoral performance varies according to system-specific variables such as type of government, critical events and changes in the political environment of political parties (Bengtsson, 2004; Narud and Valen, 2008). The important question is which kinds of political and economic contexts that are likely to condition the economic vote.

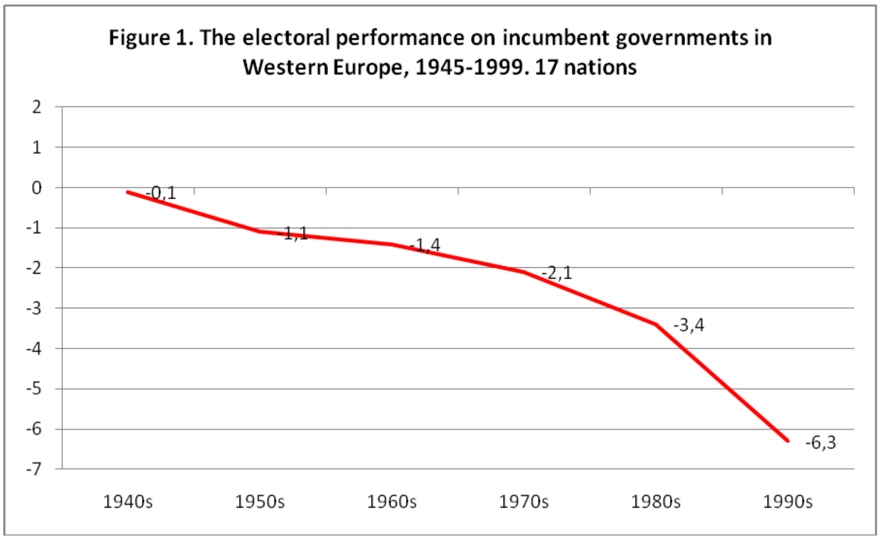
This overall question forms the point of departure for this paper, in which I will explore the electoral rewards and punishments of incumbent parties in a Northern European context. Three questions are analyzed: First, to what extent is the "adverse incumbency effect" in parliamentary systems conditioned by economic factors? Second, under which conditions is the economy a constraint on incumbent parties? And finally, what is the overall impact of the economy compared to other types of issues, e.g. factors related to social structure, policy issues and ideology? In the subsequent empirical analysis I will analyze these questions on the basis of data from the Norwegian political system. Norway is an interesting case because of its role as "petro state", that is, an oil producing nation. It also has one of the most highly developed welfare systems in the world. Hence, the political consequences of the oil fortune will be a major issue in the paper.

I begin by reviewing some of the previous research on the electoral performance of governments, and proceed by discussing the possible link between the economy and the vote. I then give a brief overview of the economic development in Norway and look at the electoral performance of governments in the postwar period. In the next part of the paper I explore possible effects of the economic development on the electoral performance of governments. In so doing, I lean on survey data from the national election studies. My main concern is to explore the magnitude and nature of economic voting in Norway. Which role – if any – does the economy play for voters' support/punishment of the incumbent parties? Given the limited space offered by one single paper, I restrict my analysis to three selected cases (elections) to illustrate the analytical points. I begin with the assertion that there is a "wear and tear" on incumbent governments in western democracies.

The electoral performance of governments

The theoretical assumption behind the "negative incumbency effect" hypothesis is based upon the notion that voters judge governing parties retrospectively upon their performance (Fiorina 1981). Governing parties may be held to more severe standards than opposition parties, particularly concerning consistency between promise and performance. In terms of vote-seeking it may therefore be a disadvantage to hold office. Indeed, this assumption runs contrary to the hypothesized effect of incumbency in the US, in which case that of exploiting office would be a more likely outcome (Cronin, 1980; Polsby and Wildavsky, 1980). In the parliamentary context of Western Europe, however, the idea that there is a "wear and tear" on parties in government has received fairly wide empirical support (e.g. Rose and Mackie, 1983; Narud and Valen, 2008).

In their analyses of 17 European countries between 1945 and 1999 Narud and Valen (2008) clearly demonstrate that in all countries there is an adverse incumbency effect, as indicated by Figure 1. Even though great variations may be observed among countries in the magnitude of the electoral losses (and gains), their analyses show that the average incumbency loss has increased monotonically over a period of 50 years.



Source: Narud and Valen, 2008:380

A number of scholars have made attempts to define the institutional conditions under which voters constitute a constraint on parties in government (e.g. Strøm, 1990; Powell and Whitten 1993; Narud and Irwin, 1994; Müller and Strøm, 1999; Anderson, 2000; Bengtsson, 2004; Narud and Valen, 2008). The main argument has been that the performance of incumbents is conditioned by the clarity of responsibility of the parties involved. Clarity of responsibility is enhanced by party system characteristics; such as the number of parties, the cleavage system, and consequently, the dimensionality of the policy space. In addition, clarity of responsibility may be linked to the type of government, i.e. minority vs. majority, and coalition vs. single party government. The most fundamental difference is between two-party systems on the one hand and multiparty systems on the other, since they generate different types of government. According to the logic of retrospective voting, with only two parties competing, voters can more easily assign blame and punish the government for poor performance by voting against it. Voters in multi-party systems, on the other hand, are less likely to employ such retrospective penalties, since coalition governments are the norm rather than the exception. With a coalition government, there is no indication as to which incumbent the voters should hold accountable – or as to which alternative party they should turn to.[1] The basic argument in the literature on democratic choice has been that coalition government obscures accountability, thereby reducing the ability of the electorate to assign blame (Dahl 1966; Epstein 1967; Schattschneider 1942; Austen-Smith and Banks 1988; Laver and Shepsle 1990; Strøm 1990; Narud 1996; 1996a). To a certain extent, the same logic applies to minority governments.

[1] This argument is valid also in prospective terms. The proposition then would be that the effect of incumbency is related to the voters' perception of the parties' future achievements, and that they vote for those parties they believe would be best qualified for dealing with certain policies.

Since these governments must rely on the support of opposition parties to enact legislation, they can always attempt to shift the blame for policy failures to other parties (Strøm 1990; Powell and Whitten 1993). Based on the above reasoning, Narud and Valen (2008) set out to test whether weak governments (i.e. coalition government and minority cabinets), which can deflect accountability, do better at the polls than strong governments (i.e. single party majority government). In addition, they examined whether the electoral performance of cabinets correlates positively with party-system fragmentation, polarization and extremism, since these attributes of the party system are likely to make alternatives to the incumbent government less likely (Narud and Valen, 2008:372).

Their findings reveal that we are faced with some very complex relationships, in which cabinet size as well as party system characteristics play a role. For instance, voters tend to be less hard on incumbents when there appeared to be no feasible alternatives. Consequently, the greater the fragmentation of the bargaining environment, the better the performance of the incumbents. Furthermore, some of the strongest effects lay in the most proximate circumstances surrounding the election, in critical events and macro-economic conditions. Linked to the literature on economic voting, these results are of great relevance. Systematic research across countries reveals that the impact of the economy varies according to system-specific variables such as type of government, critical events and changes in the political environment of political parties (Anderson, 2000; Bengtsson, 2004; Narud and Valen, 2008).

It's the Economy, stupid…

Considerable research efforts have gone into specifying precisely how the economy influences elections. A key variable in this respect has been *clarity of responsibility*, as the traditional accountability model of retrospective voting has already suggested (cf. the above discussion). Voters are more likely to vote economically if the political institutions clarify who is responsible for what, and if there is a viable alternative to the incumbent government (Powell and Whitten, 1993). Anderson (1995), for instance, demonstrates that the effect of economic conditions on cabinet support varies with party system change (measured in terms of the effective number of parties). The larger the effective number of parties, the more complex the coalition bargaining environment, and consequently, the harder it is for voters to obtain the information they need to hold the government accountable for economic measures. For instance, economic voting is less likely as coalition governments get larger (oversized) and more complex, since voters find it difficult to attribute responsibility to specific incumbent parties. By the same logic, economic voting is less likely in systems dominated by minority governments, since these governments must rely on support by opposition parties, which in turn, blurs the responsibility for economic outcomes.

On this point it is important to mention that there has been a methodological discussion in connection with the application of aggregate data versus survey data. The main criticism raised against macro-level studies has to do with their lack of sensitivity to shifts in social and political forces (see e.g. Lewis-Beck 1986). The micro-level data, on the other hand, are more sensitive to "small-nation" problems, resulting for example from the influence of the international environment, a point I will come back to in the conclusion. Individual level data do, however, allow for testing the importance of retrospective versus prospective evaluations of the economy, as well as detecting if voters have sociotropic rather than egotropic concerns (Listhaug, 2005:217). Concerning the impact of the economy on the individual vote, a number of scholars have found that the effect is marginal compared to other factors of importance to the electorate (Lewis-Beck and Paldam 2000:114; Dorussen and Taylor 2002:101). Bengtsson's analysis of the elections in 21 Western nations between 1950 and 1997, for instance, indicates that "pure" economic conditions can explain only three per cent of the changes in the governments' popular support. The result improves markedly, however, when various types of contextual variables are included in the model (Bengtsson 2004:756-758). Contextual factors that help clarify the responsibility for economic management, like governing party target size or the availability of alternatives, contribute to the understanding of differences in economic effects across countries (Anderson 2000; Bengtsson 2004). Moreover, the effect of the economic variables is stronger when volatility is low and turnout is high, especially in political and institutional environments with clear responsibility structures and availability of alternatives (Bengtsson 2004:762).

Consequently, the relative importance of economic factors varies between countries and over time, and with the level of analysis. There is some very strong evidence for economic voting in the US, for example, whereas the empirical evidence for other parts of the developed world is much weaker. The economic effect on the vote also seem to vary with the level of welfare state development, suggesting that the economy plays less of a role in states with high levels of spending (Pacek and Radcliff, 1995; for evidence in the US, see Singer, 2010).[2]

[2] Pacek and Radcliff (1995: 46-47; 56-58) suggest at least two reasons for these variations. The first has to do with the relationship with the economy and turnout, and the role played by welfare in conditioning this relationship (in nations where welfare provisions are especially generous, poor economic conditions do not depress turnout), implying that the welfare state will indirectly affect the vote via its impact on the composition of the electorate. The second is the manner in which welfare systems affect voter sensitivity to economic conditions, suggesting that welfare provisions will directly affect the vote by altering voter decision calculi. In marginal welfare states the lack of a social "safety net" will tend to increase citizen sensitivity to economic fluctuations, making them particularly alert to economic declines. By contrast, in true welfare states the general

Unemployment, real disposal income and inflation have had the most consistent influences, whereas a country's balance of trade has generally not been significant (Harrop and Miller 1987:218). Furthermore, the various types of economic indicators seem to hit governments with a different policy platform differently. Using rates of unemployment, inflation rates, and economic growth (in terms of the annual percentage change in gross domestic product (GDP)) as the independent variables, Narud and Valen (2008) showed that the election result varied between governments of different ideological leaning. Hence, the results consistently showed that conservative parties were much more susceptible to inflation than leftist parties were to unemployment. These findings are in line with the notion of "issue ownership" of right-wing parties on economic issues, but not consistent with the issue ownership attached to social democrats on unemployment issues. In this context, the Swedish scholar Johan Martinson (2009) argues that electoral outcomes of governments are best understood through an "integrated model" of economic voting and issue ownership, taking into account the effects of both economic changes and the public agenda. A high level of unemployment, for instance, usually means that the issue of unemployment will be salient during the election campaign, potentially hurting the support for the incumbent government. The incumbent's issue ownership of the issue, however, could cushion the negative effect of unemployment, since voters have confidence in the government's ability to deal with the problem (Martinson, 2009:8).

In terms of party difference, Narud and Valen found that the electoral result varied for parties with different governmental responsibilities. The Minister of Finance was affected most severely by the macro-economic variables, particularly inflation, but also the ideological composition of the government was of relevance. The combination of a rightist profile and inflation had a significant and negative impact upon the electoral result of the party of the Minister of Finance. This fact indicates that voters in the aggregate are surprisingly discriminating in their judgments, even though the Prime Minister's party was less affected in this respect, as Figure 2 demonstrates.

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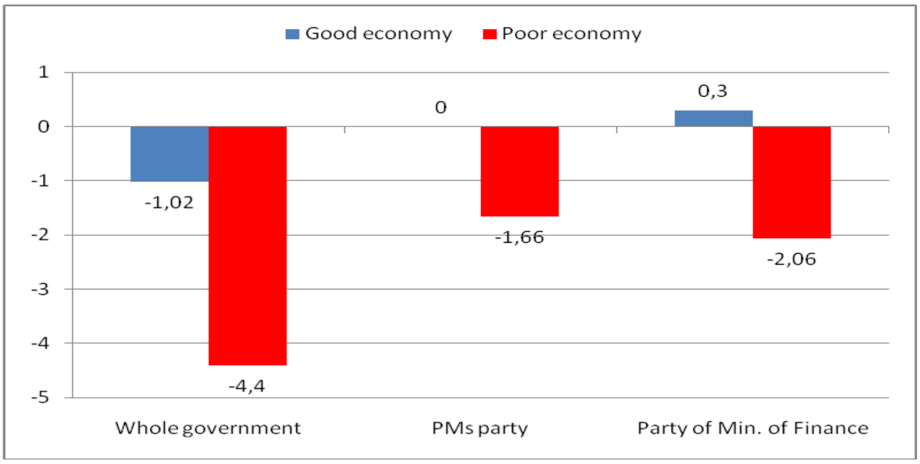
public seems to have created a system whereby they have removed short-term economic performance as the major electoral issue. "In this way", Pacek and Radcliff (1995: 58) argue, "the existence of the welfare state is itself a kind of standing accountability – a way of assuring material well being – which makes an American-style elctoral obsession with the economy unnecessary".

Figure 2. The impact of the economy on different cabinet parties. Western Europe, 1945-1999.



Source: Narud and Valen, 2008:386

It is also evident that the government as such does not receive any extra credit (votes) for a growing economy. In fact, Figure 2 points to some very clear negative effects of economic recession, whereas there is little indication of any positive effects of economic improvement. This kind of "grievance-asymmetry" indicates that there is a negative bias in the electorate, making the voters more alert to economic troubles than to good news (see e.g. Nannestad and Paldam, 1997; Dorussen and Taylor, 2002:10).

The above observations suggest that dissatisfaction with government performance is a more important predictor of electoral behavior than satisfaction. Hence, there is a tendency for poor economic behavior (or voters' perception of such) to have a stronger relationship with voters' choice than positive performance. Let us carry these propositions with us in the subsequent empirical analysis, in which the electoral fate of three Norwegian governments will be discussed more in detail. In so doing, I will lean on survey data from the national elections studies, which allow for a test on how voters' perceptions motivate their voting choice. Let us first have a look at some relevant facts about the Norwegian economy.

The "Curse" of the Oil Purse

Like many other nations in Western Europe, Norway has over the last few decades experienced rapid economic and social changes. Norway's first political parties were founded at a time when the country was one of Europe's poorest, a decade that also marked the peak of Norwegian emigration to the United States (Rokkan, 1970; Valen, 1981; Strøm and Svåsand, 2000). A hundred and plus years later, the country may be characterized as one of the most prosperous welfare states in the world, and indeed, one of the richest in terms of GNP per capita. Blessed with huge incomes from the oil industry, Norway's GNP reached an all time high in 2009 with USD 59,300 per capita (the population of Norway is about 4.8 million). Petroleum was discovered in the North Sea already in 1969, and in the following years a number of major discoveries were made. At present Norway ranks as the world's third largest oil exporter and the second largest exporter of natural gas after Russia (*Statistics Norway*). The country has an extensive social welfare system,[3] and one contributing factor is of course the wealth that has been acquired from the oil industry. However, the bulk of the welfare arrangements are publicly financed through taxation, as all wage earners contribute a fixed percentage of their earnings to the national insurance tax. The welfare expenditures form a considerable part of GDP, and worries have increased that growing demands for welfare goods due to demographic and social changes will lead to an "overload" of public expenses in the future.

No doubt, Norway's natural resources in terms of oil and gas have boosted the country's economy considerably. However, the Norwegian story is not a typical one. In her book with the telling title *The Paradox of Plenty* Terry Lynn Karl (1997) analyzes how some major petro states have mismanaged their oil fortunes. It is not only poor countries that can mismanage income from oil, as we learn from the expression 'Dutch disease' which is used to describe the effects of how The Netherlands spent their income from natural gas in the 1960s and 1970s, leading to an unsustainable growth of the public sector and a decline in manufacturing industries (Larsen 2004). The negative effect of oil economies is also captured by the idea of a 'resource curse' which has an economic aspect (Larsen 2004) as well as relationship to conflict, where countries with an abundance of natural resources like oil might suffer from conflicts over the distribution of income from these resources, leading in extreme cases to civil war (Ross, 2004; Smith, 2004; Torvik 2002).

Karl (1997) describes Norway's management of its oil fortunes as a success. The country is more developed than most petro states and is not dependent on this resource alone. More important, Norway has developed strong state institutions to handle the financial risks of oil. A key institution is the oil fund or, using the official name, the Government Pension Fund, which invests the income from oil abroad, and sets a rule for spending per year – 4 per cent. The oil fund and the procedures for spending from the fund have reigned in much of the dysfunctionalities of a large oil income and have stabilized the economy. In this respect, the

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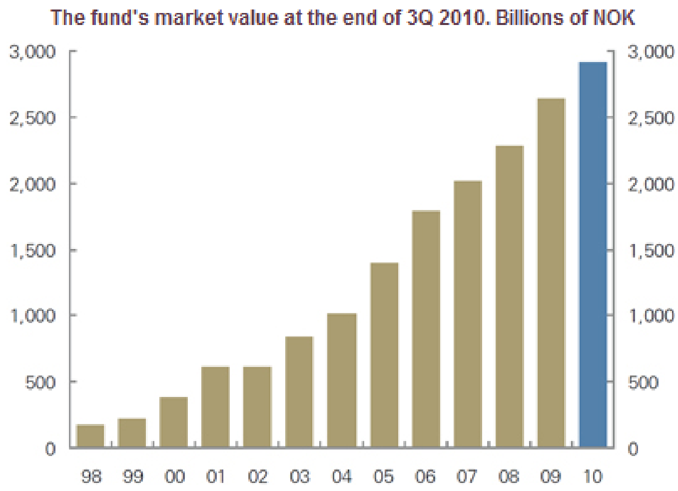
[3] A compulsory National Pension plan provides citizens with benefits such as universal child support, one-year paid maternity leave, and pensions for old age, disability, rehabilitation, widow, and widower. Health insurance is mandatory for all inhabitants.

establishment of the oil fund has been a tremendous success. However, all problems have not been solved. Recently, the government has attempted to reduce excess spending from the fight against the financial crisis in 2008-9. An important part of the efforts is to get the spending rate from the oil fund back to the annual 4 per cent level. By any standard the fund is very large, as Figure 3 demonstrates, and it has shown a strong and continuous annual growth.

Figure 3. The value of the Government Pension Fund. NOK billions (August 2010).



Source: http://www.nbim.no/en/Investments/Market-Value

It is not only the size of the fund that is impressive, it is also the fact that the fund has grown from nothing to the current size in about 10 years. It would be surprising if this wealth did not have a political impact. For the purpose of this paper, I am concerned with the possible impact of the described developments on the electoral performance of incumbent parties. Figure 4 presents the total gains and losses for the government parties in all the elections of the post-war period. The period from 1945 to the turn of the millennium is presented by decade, whereas the three most recent elections (2001, 2005 and 2009) are presented separately.

The figure clearly demonstrates that negative incumbency effects have been on the rise in Norway, an observation that parallels the evidence we saw in Figure 1 concerning all West European countries. While some variations are evident in the Norwegian case, the overall trend of negative incumbency effects are most severely pronounced in the elections of 2001 and 2005 with the governments (from different party blocks) losing 11.7% on both occasions.

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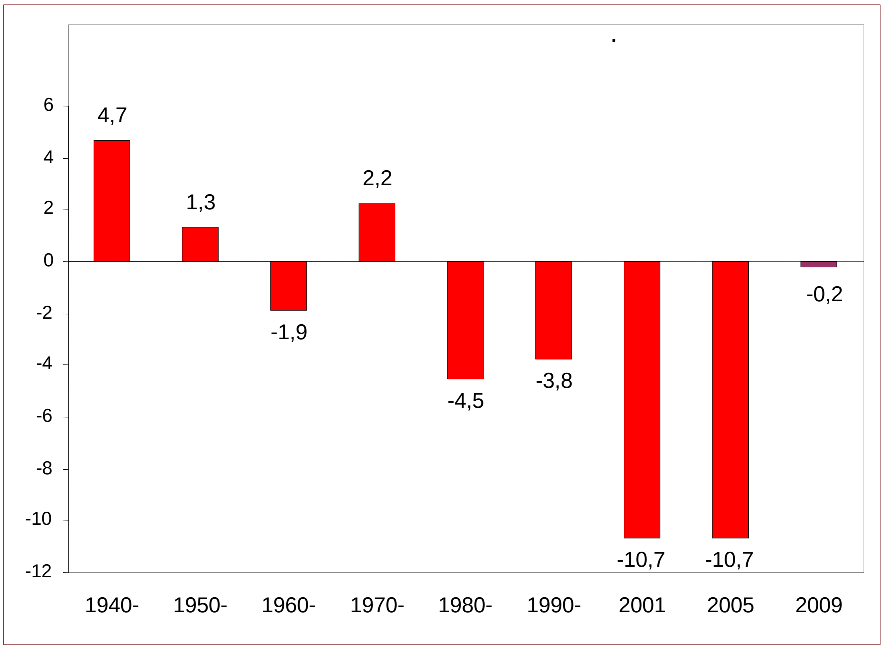
Figure 4. The costs of ruling. The electoral performance of parties in office at the time of the election (in percent of national vote). Norway 1945-2009, total average gained/lost = -1,8



These are striking results, given the enormous economic growth in the period at hand. By contrast, we can detect virtually no incumbency effect (positive or negative) in the 2009 election, which took place in the shadow of the financial crisis. In fact, the 2009 centrist-left government was the first one to survive an election in 16 years. Indeed, the results of these three elections run contrary to any intuitive understanding of the economy and the vote. How can we explain this paradox?

Even though a number of factors must surely have played a role for the electoral fate of the incumbent parties, I will argue that the contrasting patterns of the three elections are related to economic factors, and particularly to the size of the oil fund, but in very different ways. While most of the oil money is kept out of the domestic economy (by nature of the Pension fund), it is not kept out of the minds of the voters. Public opinion data from the 1997-2005 period show that citizens want to spend more of the money than the actual government policies allow for (Listhaug, 2007; Narud and Valen, 2007: 277), and this is also the case in general, although the mass support for spending varies somewhat over time. The effect of oil wealth managed in the oil fund is that it creates expectations that cannot be met. For political trust Listhaug (2007: 135) writes: “The most important effect is that it [the oil fund] created a contrast frustration gap. Political parties, especially the Progress Party and the Socialist Left

Party[4], as well as important interest organizations and advocacy groups, immediately started to observe the contrast between important tasks and problems that cannot be solved within the constraints of current state budgets, and the pile of money that steadily grows under the label of the oil fund. But this pile of money cannot be accessed easily: it is likely that frustrations caused by seeing the cake and not be able to eat it, if shared by many citizens, may undermine political trust."

In the subsequent part of this paper I attempt to substantiate the effect of the economy on the relationship between citizens and government. My emphasis is on the three most recent elections in Norway, the elections of 2001, 2005, and 2009. I will show that these elections display very different patterns with regard to the impact of the oil wealth. In 2001 and 2005 in the form of a "curse" – in the sense that frustration effects of oil wealth had grown over time (in line with the size of the fund), causing voters to expect more than the governments were able to deliver, particularly in terms of welfare goods. By contrast, in 2009 in the way of a "blessing" – in the sense that the economic resources available from the oil fund enabled the government to run a series of economic programs to counteract the negative effects of the financial crisis. In the latter election, and in contrast to the first two, it could also be the case that the 'economic shock' from the global financial crisis had a moderating effect on voters' expectations vis-à-vis the government.

Empirical analysis

Norway has a complex multiparty system[5] with a record of single party as well as coalition governments (both minority and majority) (for an overview see Narud and Strøm, 2000). In terms of links between government type and economic effects on the vote, Listhaug (2005) observes that there are only weak and irregular effects found for Norway, and that these trends may be explained by the dominance of minority governments, a weak opposition and political events that overshadowed economic concerns in the elections studied (1985-1997). The retrospective evaluation of the national economy has been the most consistent dimension of economic voting, but even this dimension was without impact in the 1997-election. Listhaug did not include any preference variables tapping the effect of the oil wealth in his

[4] These are the two populist wing parties on the left-right scale in Norwegian politics. At present, following the parliamentary elections in September 2009, there are seven parties represented in parliament. Two are left-of-centre parties (the Socialist Left and Labour), three are centrist parties (the Centre Party, the Christian People's Party, and the Liberals), and two are right-of-centre parties (the Conservatives and the Progress Party).

[5] Cf. footnote four (above).

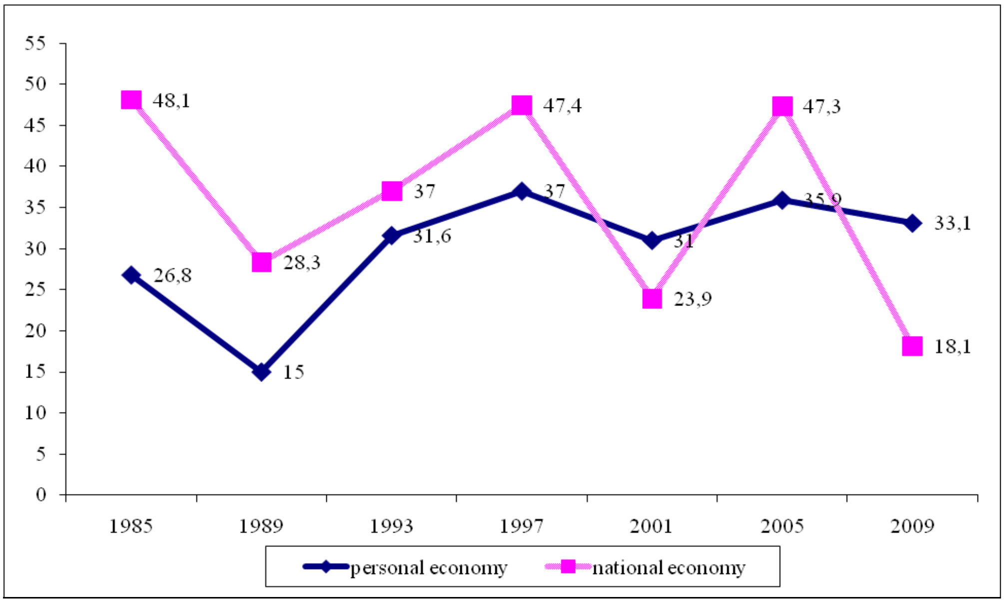
model, even though he has linked this aspect to declining political trust in later publications (Listhaug, 2007; see also Aardal, 2003).

The three governments to be analyzed in the present paper differ both in terms of cabinet type, ideological composition, and size. The incumbent facing the electorate in 2001 was a single party Labor government, whereas in 2005 it was a center-right minority government consisting of the Christian People's Party, the Conservatives and the Liberals. The latter had to give way to a center-left majority coalition of Labor, the Center Party and the Socialist Left Party which met the electorate as the incumbent government in the 2009 election.

I have already noted that the revenues from the oil fund can have opposite effects than those predicted by the conventional model of economic voting. Even though the overall impact of economic factors has been modest compared to other factors, Norwegian voters seem to have been well aware of the changes that have taken place in the economy. Hence, Narud and Valen (2007:270) found that voters' retrospective evaluations of the national economy between 1985 and 2005 went hand in hand with the actual development of the macro economy. Moreover, the rapidly improving economy which formed the bases of the elections of 2001 and 2005 was clearly reflected in the eyes of the voters, as Figure 5 confirms.[6] This is evident particularly in 2005, in which case very few voters said that their personal or the national economy had deteriorated (9 and 11 per cent). The great majority of them reported that the economic conditions were the same as earlier. In addition to the retrospective evaluations reported there, the voters' prospective perceptions of the economy as well as that of unemployment were positive (Narud and Valen, 2007; Narud and Aardal, 2007). As expected, in 2009 the number of voters with a positive perception of the national economy dropped substantially. However, the same is not the case for personal economy – in spite of the surge of the economic crisis. In addition, and more surprisingly, the number of voters stating that the economy had deteriorated did not increase in 2009 (figures not shown). Again, the greater part of the voters said that the economy had stayed about the same.

[6] Identical wording has been used in all surveys. **Personal economy**: *We are interested in how people have it economically nowadays. Would you say that you and your household have a better or worse economy than a year ago? Is it much better or a bit better? Is it much worse or a bit worse?* **National economy**: *Would you say that the economic situation in the country has become better in the last 12 months, almost as before or worse? Would you say much better or a bit better? Would you say much worse or a bit worse?*

Figure 5. Voters' retrospective perceptions of personal and the national economy, 1985-2009. Per cent stating that the economy has become "much better" or "somewhat better".



Returning to the elections of 2001 and 2005, none of the incumbent governments at the time were able to cash in any benefits from the positive developments. Instead, the incumbent parties suffered record high losses (cf. Figure 4). These observations are interesting in light of the "grievance-asymmetry" hypothesis and the alleged "curse of the oil purse". I have argued that a positive economic development over a longer period of time will have a tendency to create expectations among the voters that are almost impossible to meet. It could be that the policy performance of the governments were falling short of voters' expectations, simply because they demanded the governments to "deliver" more than they already did in terms of welfare, education, and other types of benefits.

Indeed, analyses of the 2001 and 2005 elections indicate a clear tendency in this direction, even though the political context of the two elections varied (Narud and Valen, 2007; Narud and Aardal, 2007). In 2001 Labor faced the electorate after only just a year and a half in office. In the spring session of 2000 the party had joined the rightist parties in toppling the centrist "mini-coalition" headed by Kjell Magne Bondevik, quite a popular government according to the opinion polls (Aalberg, 2002:377; Narud and Strøm, 2011). In 2001 the Labor government had no real challengers, however, as the opposition parties failed to form a viable alternative to Labor. By contrast, the centre-right minority coalition of 2005, which had been in office for the entire four year period, was challenged by the co-called red-green alliance, consisting of Labor, the Centre Party and the Socialist Left, which for the first time in history formed a joint majority alternative left-of centre. This fact made the question of governing alternatives a dominant issue in the election campaign. In addition, the election agendas of the 2001 and 2005 campaigns were quite different. In 2001 two issues dominated the agenda: taxes and schools. The 2005 campaign had a wider spectrum of issues in which a number of welfare questions were at the forefront (Aardal, 2003; 2007). What the two governments had in common, however, was a context of favorable developments in the macro-economy; a low level of inflation and unemployment, a considerable growth in GNP, and last, but not least, a swelling oil purse.

Yet, economy, at least in terms of the traditional macro economic indicators, played a very modest role for voters' party choice in both elections. If we first look at the 2001 election, the economic indicators explained only 2 per cent of the support for the incumbent party (Narud and Valen, 2007:301). Voters' perceptions of their own economic situation in the future was the only indicator with a significant effect, whereas their perceptions of the national economy, which in many comparative studies as well as the national ones have come out as the most relevant variable, had no significance. However, when taking into the equation voters' views on the use of oil money, the explained variance of the model improved considerably. Evidence showed that voters who supported a policy of increased spending of the oil revenues were much more inclined to vote against the government than those with a more restrictive view on public spending. In addition, many voters indicated that the parties to the right, the Conservatives and the Progress Party, had a better policy with regard to the oil fund than the incumbent government did. The single most important factor for voters' choice, however, was the government's performance on welfare issues, which was evaluated negatively by many voters. The overall analyses of the 2001 election showed that Labor had lost its traditional ownership of welfare issues (Aardal, 2003). Indeed, the discrepancy between voters positive perceptions of the economy and their negative evaluation of the government's performance must have hurt the government considerably (Narud and Valen, 2007: 288-301).

The 2005 election had many parallel features to that of 2001, although the incumbent government was a government of a different ideological "flavor". Accidentally, the electoral losses were exactly the same as for Labor in 2001. However, in coalition governments the incumbent parties rarely suffer the same fate. In fact, they often jostle each other for votes, and this was the case also here. The Christian People's Party and the Conservatives suffered enormous losses, and reached their lowest share of the votes ever. The third coalition partner, the Liberals, gained votes – benefiting substantially from the losses of its coalition partners (Aardal, 2007). The great victor this time was Labor, which took back many of its lost votes from four years back, and the Progress Party, which reached an all time high in the history of the party. As was the case in 2001, the standard economic indicators played only a meager role for voters' support of the incumbent parties in 2005. Table 1 presents a block-wise regression of various clusters of explanatory variables identified by Narud and Aardal (2007:195) in their analysis of the election. The dependent variable is the joint electoral performance of all cabinet parties.

Table 1. The impact of five sets of explanatory variables for the support of the incumbent parties in 2005 (voted for The Christians, Liberals or Conservatives). Block-wise linear regression. Standardized coefficients (beta).[7]

	Block 1 Background	Block 2 Economy	Block 3 Political issues	Block 4 Oil money	Block 5 Ideology
Education (high)	.13**	.12**	.13**	.09**	.10**
Gender (women)	-.04	.00	.01	.01	.04
Income (high)	.16**	.14**	.13**	.11*	.07**
Age (high)	.04	.03	.04	.04	.12**
Occupation (low status)	-.09**	-.08**	-.07**	-.07**	-.03
Own economy better, retrospective		.02	.00	.00	-.02
Own economy better, prospective		-.01	-.01	-.01	-.01
Country's economy better, retrospective		.17**	.16**	.16**	.11**
Fear of unemployment		-.04	-.04	-.04	.01
Government's tax policy good			.14**	.14**	.06*
Government's tax policy bad			-.09**	-.08**	-.03
Spend more of the oil money				-.17**	-.18**
Public-private					.40**
R^2 (adjusted)	.07	.10	.13	.15	.29

* sig. on .05 level, ** sig. on .01 level
Source: Narud and Aardal, 2007:195

Of particular interest for us are the blocks showing the effects of the economic variables, even though it should be noted that three of the background variables (education, income, and age) retained significant effects after control for all other factors.[8] In other words, social and demographic background are by no means irrelevant for voters' choice, even though the various models of issue voting are the predominant explanatory tools these days. These

[7] Some claim that with a binary dependent variable logistic regression is a more suitable method than ordinary linear regressions. One argument is that with linear regressions we risk meaningless results, since the predicted probability may fall outside the range 0-1. Another argument (and the main one) is that the statistical tests for linear regressions are inappropriate with a binary dependent variable. Hellevik (2007) argues against these propositions claiming that the use of the two methods gives almost identical results for the two kinds of significance tests. Since results from logistic regression are difficult to understand, and in many cases may seem counterintuitive from a substantive point of view, he believes that OLS regression may well be used in these kinds of situations. Narud and Aardal (2007:195) did test both methods on the 2005 data, and the results were as good as identical.

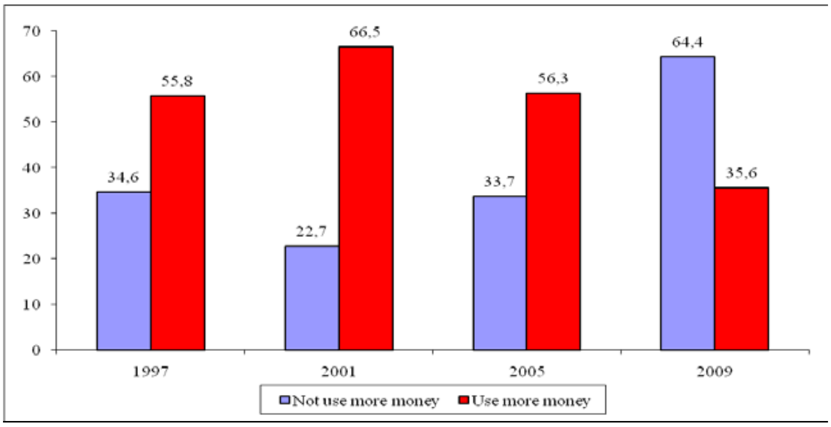
[8] Referances are made to the unstandardized coefficiants when comparisons are made between the blocks.

observations suggest that economic voting should be assessed within in a broader model of voting behavior. The table shows that voters' evaluation of the national economy had a significant impact on the level of support for the government parties. The effect was quite strong and went in a positive direction, suggesting, rather unsurprisingly, that the support for the government parties increased with positive evaluations of the country's economy. However, block 2 only increased the explained variance modestly. The same is true for voters' evaluation of the government's tax policy, which was one of the most important issues in the 2001 campaign – much to the benefit of the Conservatives at the time. Voters' views on how to spend the revenues from the oil fund had a strong and negative effect on the incumbent parties' support, suggesting that the government's restricted oil policy did not go well with voters who held a more expansive view on this question. Indeed, this result corresponds to the 2001 election with relevance to the Labor government. The overall importance of the oil question was not extensive however, as the explained variance by introducing block 4 increased by only two per cent. What really mattered the most for voters' support (or failing support) for the government was their ideological leaning, that is, their orientation along the public-private policy dimension. The substantive interpretation of this observation is that support for the incumbent government decreased with a favorable view on public enterprises. Interestingly, voters' view on the government's tax policy turned out to be insignificant after the inclusion of block 5, whereas the effect of the national economy and oil money held up in the final model specification.

So far we have discussed the relationship with government and the opposition as though the opposition parties were one entity. This is of course too simple given the prominent position of the Progress Party in Norwegian politics, particularly with relevance to the question of oil revenues. We have already mentioned the restrictive attitudes of Norwegian governments concerning the use of these revenues, and how all governments have advocated the rule that they would not use more than four per cent of the return of the fund to finance the state budget. This self-imposed rule has been controversial, however, and certainly not in line with the views of the majority of the voters, as is clear from Figure 6.[9]

[9] The wording of the question (which has been the same in all four surveys) is as follows: *Let's think about two people, A and B discussing a present question. We provide you with two assertions they came up with. A says: To avoid an increase in interest, and higher prices, we should not use more of the oil income than we do at present. B says: To solve current problems in society we may use considerably more of the oil income than we do at present. Which one of these persons would you agree more with?* In the figure we have excluded the number of voters holding a middle view (i.e. agree both with A and B, which was about 10 per cent in all the surveys) and voters who responded "don't know".

Figure 6. Voters' attitudes towards the governments' spending of oil revenues, 1997-2009.



In all elections, save the most recent one in 2009, voters who want to spend more of the oil income have greatly outnumbered those with a more restrictive view on this matter. The striking change that took place in voters' attitudes in connection with the 2009 election is a matter I will return to soon. The polarization between the two groups increased from 1997 to 2001, as the number of voters in the latter group decreased considerably. Voters who wanted to spend more of the income, on the other hand, increased in numbers. One reason for this development was surely the debate prior to the 2001 election in which the opposition parties recommended a more liberal spending of the oil incomes. The strongest and most insistent advocate for this view was then (and still is) the Progress Party, which time and again has pointed to the marked discrepancy between private affluence and public poverty. Consequently, the party has demanded that the large surplus from oil revenues should be used to help solve domestic problems. The fact that the number of voters in favor of spending more of the oil revenues decreased somewhat in 2005 is most likely a reflection of the change of government in 2001, with the former opposition parties now in office adapting to the more "responsible" 4 per cent rule. With even the Socialist Left Party (not traditionally known for its fiscal conservatism) included in government, it could be argued that since 2005 the Progress Party has stood alone as the only "true" opposition party in Norwegian politics. The party's supporters stand out as the most ardent defenders of the increased use of the oil revenues (Aardal, 2003; Narud and Aardal, 2007). In 2005 even the majority of the Socialist Left voters took a more moderate stand on the spending issue, whereas an overwhelming majority of the Progress Party voters (83 per cent) took the opposite position (Narud and Aardal, 2007:188).

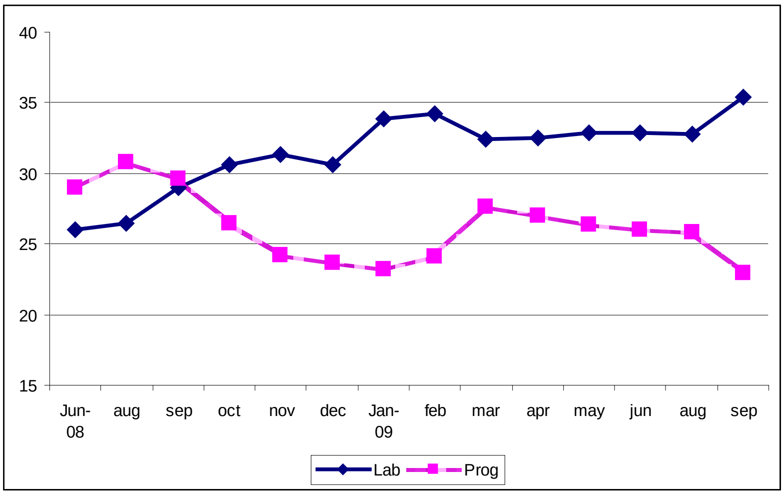
How much is there to gain from being an advocate for increased spending of the oil money? Table 1 demonstrated that voters' attitudes towards the use of the oil income did not by itself explain very much of voters' support of the government. However, when we examine the importance of this issue for the support of the Progress Party, the result is noticeable. Narud and Aardal (2007:197) leave no doubt about the importance of the oil issue for the party's recent success. The explained variance was more than doubled when attitudes towards the oil revenues were included in the model. In other words, what the Progress Party wins from its views on the oil issue is a potential loss for the incumbent parties advocating a stricter policy. As was the case with Labor in 2001, dissatisfaction with government performance on welfare policies clearly contributed to the poor result of the centre-right cabinet also in 2005. Voters' evaluations were particularly bad on education, health policy and old age care, three of the core areas of the Conservatives and the Christian People's Party (Narud and Valen, 2007).

If we turn to the election of 2009, we face a quite different situation. Not only were the red-green parties able to hold on to government power, Figure 6 shows that the number of voters with a *restrictive* view on using more of the oil fund increased substantially from 2005 to 2009. Indeed, this group is now in majority, while the number of voters' holding a more expansive view forms the minority. A closer look at individual parties reveals that the Progress Party voters are amazingly stable in their views. Even though some of the party's voters have moved in a more restrictive direction, a great majority of them are still in favor of spending more oil money. This means that the Progress Party is still the main recipient of frustrated voters wanting to show their discontent with the established parties. All other party voter groups have taken a more moderate stand. The importance of this latter development has to do with the so-called frustration gap. This gap more or less closed in 2009 as result of voter movements towards a more restrictive view on public spending.

2009: The "blessing" of the economic shock

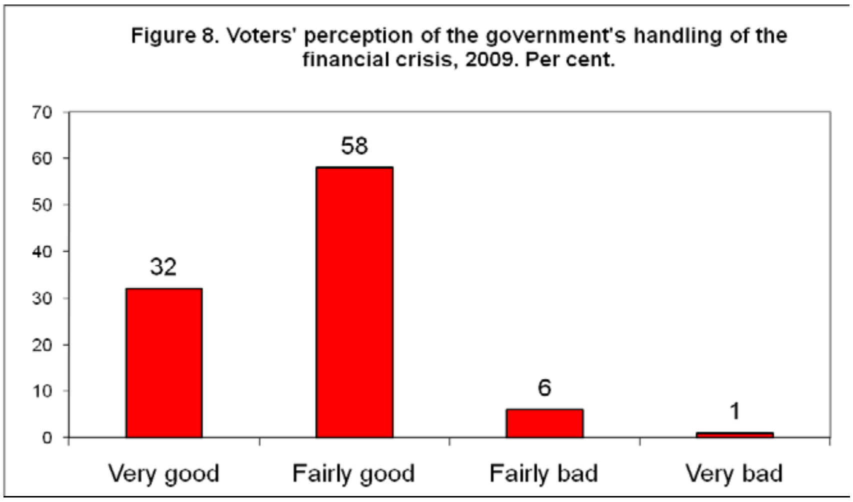
The observed changes are most likely related to the effect of the financial crisis, and the necessity of the government to actually use more of the oil fund. Because of the global problems in the economy, the run-up to the 2009 election was quite different from the other two (i.e. the elections of 2001 and 2005). Around the world stock markets had fallen, large financial institutions had collapsed, and governments had to come up with rescue packages to counteract the effects of the financial "tsunami". Regarding the Norwegian government, the crisis started to show its effects in the second half of 2008, and from this point on the support for the government increased markedly. The effect, however, was restricted to the Labor Party alone and did not influence the support for the two junior partners of the coalition, the Socialist Left and the Centre Party. At the same time the largest opposition party, the Progress Party, experienced a downturn in popular support, as demonstrated by Figure 7.

Figure 7. The popular support of Labor and the Progress Party, June 2008 – September 2009. Average per cent of all polls.



The surge for Labor was in line with similar trends for government parties in other European countries at the time. As the arrows for the banks and the stock markets pointed downwards, they pointed upwards for Gordon Brown in the UK, for Merkel in Germany, Sarkozy in France and Berlusconi in Italy. In other words, the economic crisis seemed to favor the parties in office. Some commentators related these trends to the phenomenon of "risk aversion", and people's general preference for certainty over uncertainty in times of emergency (see e.g. Colomer, 2008, for this line of argument). When subject to serious shocks people seek refuge in the arms of the sitting government under the maxim: "you know what you've got, but not what you'll get". Indeed, the success of the Labor party in the 2009 election indicates that these kinds of psychological mechanisms may have played a role.

On the other hand, the lack of credible government alternatives as well as the incumbent government's handling of the financial crisis, are among the more likely causes of the its victory. During the campaign Prime Minister Jens Stoltenberg expressed the government's willingness to increase public spending in order to avoid a worsening recession. Hence, the government presented an expansive budget thus breaching the aforementioned 4 per cent spending rule of money from the oil fund. Indeed, this limit was already severely broken through various sets of stimulus packages before the election. The observed changes in voters' attitudes' towards the use of oil money between 2005 and 2009 (Figure 6) are probably partly a reflection of the economic measures already implemented by the government. Figure 8 demonstrates that the government's strategy was a tremendous success in the eyes of the voters.[10]



It is evident that a great majority of the voters were satisfied with the way the government had handled the financial crisis. Figure 8 shows that 90 per cent of the respondents indicated this view, whereas only 7 per cent were critical towards the government's actions.[11] These tendencies could be observations already in June 2009, in other words before the election campaign started (Listhaug and Narud, 2011). Of course, the most satisfied voters were the ones supporting the government coalition parties - Labor, the Centre Party, and the Socialist Left. However, a majority of the Conservative and the centrist parties' voters (Liberals and Christian People's Party) looked favorably upon the government's handling of this issue as well. The Progress Party voters expressed the most negative opinions, but they were not many. Only 14 per cent believed that the red-green parties had done a poor job in handling the crisis.

The final question to be analyzed here is the overall impact of the economy on voters' support for the incumbent parties. Did economic factors play a more prominent role in the 2009 election than they normally have done in Norwegian elections? Again, let us lean on a

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[10] The wording of the question is the following: *We now have a question about the financial crisis that has struck Norway the last year. How do you think that the red-green government has handled this crisis? Do you think it has handled the crisis well, fairly well, fairly badly, or very badly*? In the table we have merged the two values very well and fairly well into "well", and very and fairly badly into "badly". The respondents who answered "don't know" have been removed from the analysis.

[11] 3 per cent of the respondents answered "don't know.

multivariate regression model to shed light upon this question. I have included six blocks of variables to tap the relative importance of the economy vis-à-vis other factors. The results are shown in Table 2.

Table 2. The impact of six sets of explanatory variables for the support of the incumbent parties in 2009 (voted for The Socialist Left, Labor or Center Party). Block-wise linear regression. Standardized coefficients (beta).

	Block 1 Background	**Block 2 Economy**	**Block 3 Financial crisis**	**Block 4 Government performance**	**Block 5 Oil money**	**Block 6 Ideology**
Education (high)	.02	.01	-.03	-.02	-.04	-.05
Gender (women)	.10**	.13**	.12**	.11**	.10**	.05
Income (high)	.-.05	-.06	-.05	-.04	-.05	.00
Age (high)	.01	.00	-.02	-.01	.02	-.02
Occupation (low status)	.05	.04	.05	.05	.06	.03
Own economy better (1) or worse (5), retrospective		-.10**	-.08**	-.08*	-.06	-.06*
Own economy better (1) or worse (5), prospective		.00	.03	.03	.01	-.01
National economy at present , good (1,2) or bad (4,5)		-.07*	.00	.00	-.01	.00
National economy better (1) or worse (5), retrospective		-.08**	-.06*	-.06*	-.05	-.04
Unemployment in family, yes (1), no (2)		.04	.03	.03	.03	.03
Fear of unemployment in future yes (1), possibly (2), no (3)		-.05	-.05	-.06*	-.06*	-.05*
Government's handling of financial crisis, good (1,2) bad (3,4)			-.33**	-.33**	-.27**	-.15**
Government performance on school and transport policy, poor (1) mentioned (0) not mentioned				-.14**	-.14**	-.10**
Spend more of the oil money (0=no, 1=yes)					-.24**	-.19**
Public-private index (0=public) (20=private)						-.45**
R^2 (adjusted)	.01	.03	.13	.15	.20	.37

* sig. .05
** sig. .01

The table shows that only gender has a significant effect in the first block, confirming that female voters are more likely to support the center-left parties than men are. However, the explained variance of the first block is next to nothing. Introducing the classical economic variables in block 2 only slightly increases the explained variance. Three of the indicators are nevertheless significant: voters' retrospective perceptions of both personal and the national economy, as well as their perceptions of the current national economy. Hence, the probability to vote for the incumbent government decreases as we move from positive to more negative perceptions of the economy. Voters' views of the government's handling of the financial crisis, however, improve the explained variance considerably. This item has a strong and significant effect, suggesting that positive evaluations of this matter are strongly related to voting for the incumbent parties.

Dissatisfaction with government performance on school and transport policy (block 5), has a significant and negative effect upon the support for the governing parties.[12] However, this block only modestly boosts the explained variance of the model. By contrast, the explained variance increases by five per cent points when block 5 is introduced. Hence, a restrictive view on spending more of the oil money has a significant and positive effect on voting for the incumbent parties. Of course, if voters' attitudes towards spending were to change back to a more liberal level, it may very well reopen the so-called frustration gap. As past experience has shown, this may indeed be a liability for future governments. Finally, introducing the public-private policy index in block 6, almost doubles the explained variance. The items on the financial crisis and the oil money retain significant and strong effects, however, after control for ideology.[13] In other words, economic factors related directly or indirectly to the financial crisis were central for the support for the incumbent government in 2009.

No doubt, the financial means available to the Norwegian government through the oil fund must have been a tremendous asset for the incumbent government in 2009. It gave the government the opportunity to show "muscles" in a situation where the economic recession created insecurity among many voters. In so doing, the government was able to meet a long-standing demand among many voters to use more of the oil money to solve domestic problems. It seems like a paradox therefore that the more classic economic issues (economic perceptions of the national/private economy, unemployment etc.) did not play a more significant role in our comprehensive model. This may be related to the 2009 campaign agenda, in which economic issues did not have a particularly prominent place (Narud, 2009; Jenssen, 2010). In addition, we have seen evidence from the election survey that voters had very few worries about future developments of the labor market and the national/personal economy. In fact, most voters believed the situation to be the same as earlier. Economic issues did, however, dominate a great part of the public debate in the year leading up to the election, and they certainly formed an important underlying premise in the competition between the political parties. In addition, Jenssen (2010:14) shows that Labor was rated very highly of

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[12] Analyzing voters' perceptions of government performance, Narud (2011) demonstrates that these were the two areas that caused most dissatisfaction among the respondents.

[13] I refer to the unstandardized b coefficiants when comparing the changing effects from one block to the next.

those voters who mentioned economy and labor market policy as the most important issues in the election. The “issue ownership” of Labor was not shared by the junior partners of the coalition, the Centre Party and the Socialist Left (in spite of the latter holding the Minister of Finance portfolio), and could help explain why Labor was the only incumbent party which seemed to benefit electorally from the crisis. In addition, we should be open to the possibility that the economic recession had a moderating effect on votes’ expectations towards the government. These were exceptional circumstances, however, and the question is what will happen when the government returns to a “normal” spending policy concerning the oil money.

Conclusion

I started this paper by citing former Prime Minister Harold Wilson on the importance of the economy for voters’ support for the governing parties. Evidence suggests that there is an effect of the economy on the vote, but that these effects are moderated by political institutions, contextual factors, and by different aspects of the economy. The importance and direction of economic factors vary between countries, between elections, over time, and with the level of analysis. The main question in this paper has been which kinds of political and economic contexts that are likely to condition the economic vote. I have agued that in the context of the Norwegian welfare system, the impact of the economy is conditioned upon the development of the oil sector. The standard economic indicators have played only a modest role for the vote. One reason may have to do with the country’s position as a small nation with an open economy. The influence of the national government on the economic development is limited, and voters are thus less likely to hold the government accountable for the economy. Another, but by no means incompatible explanation, is suggested by Pacek and Radcliff (1995): in nations with generous welfare provisions, economic and social safety-nets lower the saliency of economic issues and make voters less alert to economic fluctuations. In the context of the Norwegian petro economy, I have argued that voters are more sensitive to the government’s spending of the oil revenues. The strong government involvement in the oil sector has strengthened citizens’ expectations of benefits they may get from the income of the oil. These expectations are on many parts linked to welfare policies.

History has shown that wealth from oil is not necessary a blessing and many countries have squandered their petro incomes. Norway has attempted to regulate and control the income from oil by creating a fund which invests the income abroad and sets limits to how much of the fund can be used in the national economy. By investing the income in foreign countries and saving it for the pensions of future generations, most of the wealth from oil has been kept out of the country. However, it has not been kept out of the minds of voters. The strong growth of the fund creates frustrations as voters, and some of the parties (most notably the populist Progress party), as well as interest groups point to problems and issues that are not solved despite the accumulation of money. The parliamentary elections in 2001 and 2005 saw record losses for the incumbent parties despite the fact that economic conditions were favorable at both elections. It is likely that the growing oil fortune created expectations that government policies could not meet. The ensuing voter frustrations may have contributed to incumbency losses

In the 2009 election the pattern was reversed. The financial crises now dictated an increase in spending by government and the oil wealth came in handily for this purpose. This paper shows that voters gave good marks to how the government handled the crisis. The three parties in power received almost the same support (in sum) as in 2005 and were able to stay in power. In this case the oil fortune may have been a blessing. Now it remains to be seen if the government is able to reign in the overspending to get back to the 4 per cent rule. The political consequences of tighter use of money may well increase incumbency losses at the next election.

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