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CAUGHT BETWEEN TWO TRANSITIONS:  
HOW ELECTORAL VOLATILITY AND ECONOMIC VOTING AFFECTED THE  
DEMOCRATIZATION OF CENTRAL EASTERN EUROPE

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## ABSTRACT

In the years immediately succeeding the fall of communism, the road towards democratization in many Central Eastern European countries was met with a joint effort of economic transition and democratic consolidation. The economic volatility associated with structural economic reform coincided with high rates of electoral volatility. Despite the stabilization of national economies and the aging of these newer democracies, electoral volatility in Central Eastern Europe has persisted. This paper seeks to identify which factors help lead to these sustained rates of high electoral volatility over time and to determine whether or not these trends will persist. This paper contends that high rates of retrospective economic voting primarily contribute to electoral volatility, but anticipate that these trends will diminish over time as new sociocultural cleavages will become politicized. Ten countries across Central Eastern Europe were studied between the years of 1989 and 2014 to assess the impacts that GDP growth rates, national unemployment rates, and inflation have on the changes in incumbent vote share from election to election. The results indicate that retrospective economic voting occurs within Central Eastern European democracies, the relationship of retrospective economic voting has strengthened over time, and that the communist legacies of unemployment-phobia have weakened.

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## **Chapter 1**

### **Introduction**

The fall of the Berlin Wall in 1989 and the subsequent collapse of Soviet domination of the communist bloc in the early 1990s revolutionized the power politics of Central Eastern Europe (CEE). Germany reunified, Poland's Solidarity movement brought its communist government to the bargaining table, the Silent Revolution in the Baltic States precipitated the independence movement in the USSR, and the rise of political demands and the unsuccessful 1993 coup finished the Soviet Union creating the Commonwealth of Independent States (CIS). This four-year period utterly changed the face of Europe, creating fifteen new sovereign states, bringing the ouster of seven governments, and leading to the abandonment of an ideological and economic system deeply ingrained in the minds of hundreds of millions of people.

For those that did succeed in establishing a consolidated democracy and a true market-based capitalistic economy, the process of rebuilding their respective nations has been tough and often volatile. Due to the domineering and monolithic nature of communist politics, the political elite within these communist-successor states had few legitimate political institutions upon which to rely (Epperly 2011). These democratic movements needed to build and construct social cleavages, sort these cleavages into viable political parties, consolidate political viewpoints into unified policy positions, and effectively communicate these positions with the electorate. All at the same time, the governments in power were tasked with drafting new constitutions to maintain order and allow for universal political participation, enact structural economic reforms, and overhaul legal codes to allow for the formation of civil society. Tasked with all of these responsibilities, it is no surprise that many governments and political parties struggled to consolidate democracy, causing voters to quickly and frequently change party preference, which has led to high levels of electoral volatility – the frequent turnover of parties in government.

Despite the functionality of democracy through democratically elected legislatures, independent judicial systems, and an active civil society, sustained high levels of electoral volatility may lead to harmful effects on national democracy. The frequent entrance and exit of political parties, politicians, and governing coalitions could lead to wide swings in policy, the emergence of populist or radicalized parties, the hindrance of economy development, and the overall instability of democratic institutions (Powell and Tucker 2014). All of these could unravel even after twenty years of democratization and nation building in Central Eastern Europe, possibly leading some nations back down the road to autocracy. To help mitigate these consequences and preserve the gradual stabilization of Eastern Europe, it is important to ask: why does the degree of electoral volatility in Central Eastern European democracies vary over time? I propose that electoral volatility varies in CEE democracies over time due to people's preferences to vote based on their country's economic performance, more commonly known as retrospective economic voting, corresponding with the varying nature of their country's economic transition. Retrospective economic voting would lead to high rates of volatility in CEE since the volatile nature of economic-based voting patterns in these countries would match the volatility of their economic transitions during the late 1990s and early 2000s.

In addition to the volatile economic transitions, volatility could also stem from historical legacies of post-communist party systems. The communist era suppressed nearly all forms of traditional political participation. Each nation's communist party dominated the political system, stemming dissent and preventing meaningful political competition. The political system was unified around the government's communist ideal. Therefore, after the fall of communism, the electorates in these post-communist states had difficulty in evaluating the performance of their governments. With economic performance being one of the only measures of government evaluation, voters have evaluated their governments on this one criterion, magnifying its effects. With high levels of economic voting and a volatile economy in many of these democracies due to the transition from a command economy to a market economy, the degree of electoral volatility could reflect a higher magnitude in the years succeeding the transition. This paper will



argue, using cross-national analysis, that the accountability mechanism of retrospective economic voting is the key determinant of electoral volatility in many of these Central Eastern European democracies.

## **Chapter 2**

### **Literature Review**

Despite the near two-decades that have passed since the emergence of Eastern European democracy, experts in electoral volatility have come to no clear consensus for what perpetuates volatility in Central Eastern Europe. Electoral volatility has risen to a level so high in some Eastern European countries that voters have replaced entire party systems in one electoral cycle. For example, “in Latvia the two largest parties in 1995 collectively garnered 3.35 percent of the vote in the following elections... and in Moldova not one of the parties elected in 1994 was re-elected in 1998” (Birch 2001). Additionally, from the years 1993-2006, only three governments were consecutively reelected across 34 elections over ten CEE nations, where the average incumbent government lost 14 percent of the vote between elections and one government lost over 35 percent in just one election cycle (Roberts 2008). Clearly, electoral volatility has skyrocketed in Eastern Europe in the period immediately following the fall of communism.

Contrary to other regions in the world, electoral democracy in Eastern Europe has not had a long history of development or entrenchment. The sudden fall of communism left a vacuum of power across the region and led an effort to build institutions that had not existed since the Interwar Period. Naturally, this process was fraught with difficulties, setbacks, and struggles, as well as its shares of successes and breakthroughs. However, none would have expected that the process of democratization would extend nearly twenty years with relatively high rates of volatility, especially with the active participation of the democratic stalwarts of Western Europe through foreign aid, economic development programs, and nation-building efforts under EU-ascension negotiations. Even compared to the other transitions in the second and third waves of democratization, the sluggish transitions and high rates of volatility in Eastern Europe resemble outliers. Throughout the course of twenty years of scholarly research, experts have deduced the

catalysts of Eastern European electoral volatility to arguably three major factors: retrospective economic voting, constitutional/electoral institutions, and historical legacies.

Retrospective economic voting means that voters evaluate government performance on recent economic conditions. If the economy improves, voters reward the incumbent government with a greater percentage of support in the upcoming elections, but if the economy worsens, voters punish the incumbents by giving their votes to the opposition parties. Economic voting is very strong in the highly consolidated democracies of Western Europe and North America, yet many still debate whether economic voting even occurs in Central Eastern Europe (Birch 2001, Tucker and Powell 2013, Epperly 2011). However, as we look at the single-country studies on voting patterns within CEE countries, we can believe that economic voting does indeed occur in this region. When looking at the Lithuanian political system, economic voting proves to be a substantial force in voting patterns on both the municipal and national level (Jastramskis 2011). In Hungary, voters have transitioned from basing votes on preferred proposed policies to evaluating actual performance through economic mechanisms (Lewis-Beck and Stegmaier 2009). Elections in the Czech Republic have proved that when worsening economic conditions exceed the pain tolerance of the electorate, voters punish the incumbent government (Coffey 2013). Though retrospective economic voting might appear in different manifestations and degrees of importance across these countries, many voters within these new democracies are basing their votes by assessing government performance through economic conditions.

If economic voting does indeed exist in Central Eastern Europe, what then are normal levels of economic voting in the rest of the world? Voters naturally take more factors than just economics into account when casting their vote on election day. Some care deeply about social issues or foreign affairs. Others are attracted to individual politicians and not party platforms. Even within economic voting differences persist. Some will reward incumbents if they believe that the economy could have been worse without the government's policy. Others are attracted to future economic policies promised by the candidates. All in all, the levels of electoral volatility will not perfectly rise and fall with the changes in the

economy. Differences persist, whether they are in new democracies or older ones. According to Bochsler and Hanni, in all democracies, all incumbent governments seem to benefit weakly from a prosperous economy, signaling that other governmental responsibilities take voter precedence during times of economic growth. However, the punishment is greater in younger democracies than older ones during economic crisis. During the Great Financial Crisis, voters in established democracies reacted mildly and usually switched votes among the existing major political parties when punishing incumbents (Bochsler and Hanni 2014). Therefore, electoral volatility in Western Europe and North American has remained relatively stable in the post-War era. Party switching and party formation, some of the key indicators of electoral volatility, have remained nearly one-third of the levels of the newly democratized world (Epperly 2011). Though economic voting has remained an important source in holding democratic governments accountable, it is not the sole determinant of accountability. In the strong consolidated democracies of the Western world, evidence has pointed to modest incumbent gains during economic expansion and mild declines during crisis.

What can electoral volatility look like in some of these CEE democracies? Electoral volatility can manifest in different ways – be it incumbent support, the total number of parties in a system, the effective number of competitive parties, or even the amount of citizens actively participating in an election. Perhaps the most straightforward approach would be to look at the changes in incumbent support between elections. Let's look at the Lithuanian elections between 1996 and 2000 as an example. In 1996, the Homeland Union, led by Vytautas Landsbergis formed a right-leaning coalition with the Christian Democratic Party and the Centre Union. Campaigning on a platform of economic growth and anti-corruption, the conservative coalition garnered 50.44 percent of the total vote (IPU 1996). In the following 2000 election, the Homeland Union “won just 8.62 per cent of the vote and 8 seats, far less than the 40 per cent which it had won in 1996,” with the coalition as a whole losing 35.9 percent of its vote share in one election (IPU 1996). That drastic change occurring in merely four years is a pinnacle example of high electoral volatility.

What then does economic voting look like in these newly formed Central Eastern European democracies? By and large, we see electorates highly prioritizing economic performance from their governments, ousting them if they do not deliver (Boschler and Hanni 2014, Roberts 2008, Vesely 2013). Voters “consider economic prosperity as one of democracy’s essential characteristics,” thereby relying more upon performance-based legitimacy when casting ballots (Boschler and Hanni 2014). Therefore, these young democracies reacted strongly to poor economic performance by throwing out their government in studies during the Great Financial Crisis. What is more troubling, we see a trend of perpetual punishment for the incumbents, with only slight drops in incumbent vote-share during growth years but steep drops during recessions (Roberts 2008). This cycle of perpetual punishment is known as hyperaccountability. The costs of governing in Central Eastern Europe have risen to quite high levels. Due to implementing structural economic reforms, which only realize benefits in the medium- to long-term, these young democracies have seen vote losses by the measure of five to seven times that of those in established democracies, with seven CEE governments losing more than 30% of their previous votes and only three governments marginally gaining votes across 34 elections (Roberts 2008). This hyperaccountability can be traced to a variety of factors, including a history of protest-voting, greater education and accountability mechanism, and the potentiality for corruption (Roberts 2008, Lewis-Beck and Stegmaier 2009, Lippenyi et al 2013). Interestingly enough however, voters in Central Eastern Europe seem to respond to one measure of economic performance: unemployment. When assessing other economic metrics, including GDP growth and inflation, unemployment rates consistently showed significant negative relationships (Roberts 2008, Lewis-Beck and Stegmaier 2009). Though inflation and growth rates do affect voter behavior, especially as sociotropic voting emerges (voting based on economic conditions on society), egocentric economic voting still predominated, focusing on personal effects of economic malaise, like unemployment (Lippenyi et al 2013).

With the trends thus far seen in Eastern Europe, what kind of economic voting and electoral volatility do we expect to see in CEE as these democracies age, based on current regional trends and historic

indicators from around the world? By looking at Eastern Europe itself, existing trends indicate a strengthening of economic voting as these democracies age and develop. In 2001, Duch drafted an argument that claimed economic voting would occur in greater margins as the electorate learns more about democracy, how to properly assign blame, and the political mechanisms for doing so (Duch 2001). In two studies on Hungarian elections and one pan-Eastern European election, Duch's theory holds firm (Roberts 2008, Lewis-Beck and Stegmaier 2009, Lippenyi et al 2013). Both retrospective and prospective economic voting have strengthened as the democracy has aged, leading scholars to believe that politicalized cleavages have already formed and segmented the electorate with vote switching lying in economic variations not policy preferences (Lippenyi et al 2013). However, electoral volatility will decline as the democracy ages, despite the strengthening of economic voting. When a democracy is born, many parties exist, giving voters many options of who should govern and many opportunities to defect (Mainwaring and Zoco 2007). As the democracy ages, the party system consolidates and volatility decreases. When comparing democracies inaugurated in 1850, 1900, 1945, 1980, and 1990, volatility measures increased exponentially as the inauguration date comes closer to present day (Mainwaring and Zoco 2007). That is not to say that economic voting diminishes. This effect could come from a variety of reasons, including the values-based argument advocated by Bochsler. Perhaps older voters, though attuned to economic performance with the ability to assign blame, drafted a different social contract with their governments that extends beyond mere performance-based legitimacy. This leads to an uncertain future for electoral stability in Eastern Europe. On one hand, volatility should increase due to the strengthening of economic voting under learning theory. However, democratic durability should cause voters to expect more from their elected officials beyond improved economies, thus stabilizing electoral systems.

Overall, existing literature has provided a strong foundation for understanding electoral volatility in Eastern European democracies. Though resembling many of the voting patterns across the world, post-communist Europe exhibits anomalies and differences not seen in other regions of the world. First, economic voting does indeed occur in Central Eastern Europe. Second, economic voting occurs at a higher

rate than that of older democracies in North America and Western Europe, and even democracies in Latin America. Third, this heightened economic voting has led to high electoral volatility, even to the point of hyperaccountability, where voters perpetually punish incumbents regardless of improvements to the economy. Lastly, the future remains unclear of where electoral volatility will go in Eastern Europe as economic transitions stabilize and democracies age. This is where my research will begin. Here, I will look at current electoral results to see if hyperaccountability has endured or party systems have stabilized.

## Chapter 3

### Theory

Due to the ongoing debate about the future trends of electoral volatility in Central Eastern European democracies, this research seeks to understand the causes of this volatility and to establish a trend of where this volatility might go. But before we go into understanding the future trends of volatility, we must know what electoral volatility is. Scholars commonly agree that electoral volatility is the net change of votes within a national party system (Pedersen 1979). In attempting to define this net change of votes, scholars can classify it in a few major ways. First, they could track how many parties are entering and exiting the party system by using Pedersen Indexes. Conversely, they could track how incumbent governing parties fare from election-to-election. In this research, we seek to answer the question of electoral volatility through changes in economic performance. Therefore, it makes more logical sense to see electoral volatility as how incumbents fare from election-to-election. We do not want to see the changes in the size of the party system. We want to see how great voters' preferences change based on economic outcomes. That leads us to understand electoral volatility as the change in incumbent vote share.

However, that definition leads us to another question: who counts as an incumbent. In consensus democracies, which represent nearly all of the cases studied, single party legislative majorities are relatively rare and usually consist of coalition governments (Clark, Golder and Golder 2012). Therefore, most incumbents consist of all of the parties included in the previous government at the time of initial government formation (Roberts 2008). Additionally, many of these democracies have different branches of government holding specific policymaking privileges. Since all of countries studied are either parliamentary or semi-presidential systems (Clark, Golder and Golder 2012), the majority of policymaking decisions are held in the legislature and voters can directly hold the legislature accountable during electoral cycles (Roberts 2008).

Now that we understand the meaning of electoral volatility, we can now seek to understand the trends of electoral volatility in Central Eastern Europe. Since electoral volatility depends on the electoral



performance of incumbent governing political parties, it is important to have a firm understanding of how political parties function and how party systems operate. According to Sitter, a party system is a political environment comprised of different and competing political parties. To accomplish their primary goal of survival, political parties have three major functions: shape policy, maximize votes, and gain access to elected or executive office (Sitter 2001). With the absence of any of those three objectives, the organization is not a political party, but merely a politicized interest group.

As political parties seek to win votes, they do so by aligning themselves along social divisions attracting that portion of the electorate. These political cleavages thereby provide the basis of support for political parties and structure the nature of political competition in the party system (Tavits 2005). If these social cleavages are both politicized, meaning that they cause political divisions within the society, and deep rooted, meaning that they rarely change over time and are passed down generationally, then these social cleavages can be institutionalized by political parties leading to stable political systems (Tavits 2005, Lipset and Rokkan 1997). Therefore, to understand and theorize about the nature of the stability of Eastern European party systems, a close look at social cleavages and party formation within CEE democracies is necessary.

Though the communist-era might have diminished the social base of collective identity responsible for forming social cleavages in Central Eastern European democracies, empirical studies have shown that these cleavages do indeed exist (Tavits 2005, Tucker 2002). According to Nick Sitter, “ a combination of focus on religious values, regional interest and national identity formed a basis for successful agrarian/peasant parties” and more radical CEE parties have an “appeal [which] combines nationalism and protectionism” (Sitter 2001). These social cleavages are alive and well in Central Eastern Europe, as parties can form based on issues not surrounding socioeconomics, however, the power of these non-economic social cleavages should be questioned. Though stabilizing social cleavages exist, this does not necessarily entail that they are strong enough to structure political competition.

Time and again, scholars note the overwhelming prevalence of socioeconomic factors dominating CEE political systems. In the period immediately after the fall of communism during the 1990s, “political elites [strove] to put more emphasis on socio-cultural divides than the electorates could bear, given their daily concern with economic hardship due to politics of market liberalization” (Kitschelt et al 1999: 267). Looking at this effect at a case-by-case analysis, this effect led to strong political divides on socioeconomic issues and economic opinions in Bulgaria, and became the dominant structural divide of the Bulgarian political system post-Fall (Kitschelt et al 1999). In the Czech Republic, new political parties disregarded religion and nationalism, instead focusing on radical economic transformation. The communist-successor parties in Poland and Hungary broke and split electoral coalitions over economic reform policies (Sitter 2001). Therefore, “come 1989, the definition of the left-right [economic] dimension became the central concern of the new parties” (Sitter 2001), leading to the socioeconomic dimension of society to be one of two dominating dimensions in politics in former communist EU countries (Jungerstam-Mulders 2006).

How does this relate to electoral volatility in Central Eastern European democracies? As Margit Tavits indicated, if deep-rooted, non-economic social cleavages do not institutionalize the political system, the party system cannot stabilize, for votes will constantly transfer between parties in response to the whims of economic output (Tavits 2005). Evidence has shown in the period after the fall of communism (roughly between 1989 – 2004), non-economic politicized social cleavages did indeed exist, but the dominating forces of party formation during that time period were economic policies relating to the transition to a market economy and socioeconomic divides within society – in essence, fluctuating economic social cleavages. Therefore, voters should have cast ballots for parties based on economic promises or past economic performance.

However, voters do not have fixed ideas; they do learn. As a democracy ages, voters learn how to better define the relationship between the electorate and the government. Votes are no longer distributed solely on the basis of perceived economic performance. The electorate cares about a variety of other social or cultural issues affecting the country and forms more realistic expectations of how much the government

can affect economic output. More political issues are debated on the campaign trail. By 2006, scholars had begun to recognize a shift in political expectations of CEE voters. Based on a comparative case-study analysis of national party systems across Eastern Europe, Jungerstam-Mulders writes, “different dimensions of conflict have risen, and in most countries the communist-anti-communist cleavage line has started to fade away. Instead, different issues have entered the political debate in different countries.... Other conflicts have emerged alongside or instead of the socioeconomic cleavage” (Jungerstam-Mulders 2006: 245). The democratic structures of Central Eastern European democracies are expanding beyond just the straightforward divide of economic performance. They are maturing to include a variety of other crosscutting politicized cleavages, like the moral-cultural, cultural-historical, nationalist-cosmopolitan, center-periphery, and urban-rural divides. With a decreased focus on economic performance, voters should cast ballots for parties based on issues outside of economic wellbeing.

However, with the onset of the global financial crisis and the European double-dip recession, economic wellbeing and standard of living once again shot to the forefront of the electorate’s attention. When looking at young and growing democracies, Milan Svolik finds a relational link between economic downturns and the survival of young democracies. As downturns become worse, there is a greater likelihood that these young democracies will become more politically and electorally unstable and eventually collapse (Svolik 2013). In terms of Central Eastern Europe, as the global financial crisis hit Europe, economic downturns hit many of these young democracies hard. According to Svolik, we would expect voters to once again focus on holding governments accountable based on economic performance, albeit to a lesser degree.

Based on this story, we will create a tri-temporal model to formulate our hypotheses to test each time period – the immediate post-transition period, the period after the initial transition before the Financial Crisis, and the post-Crisis period. Initially we will start with period 1 or the Fall, spanning roughly between 1989-2003. This period tracks electoral volatility and economic performance during the period immediately after independence in which these newly democratic governments are both consolidating democracies and managing the economic transitions. Since this is a time of high economic variability marked by high

unemployment, variable inflation, and sporadic growth, voters will change their votes accordingly. Therefore, the magnitude of retrospective economic voting for that time period should be high, and electoral volatility should also correspondingly be high due to the volatile nature of the economic transition. This leads to Hypothesis 1: *During elections prior to 2004, an improvement in economic measures should lead to a strong positive change in incumbent vote share.* Conversely a worsening of economic measures should lead to a strong negative change in incumbent vote share. Electoral volatility is not only about a positive change in incumbent vote share. It is about swings in vote share. Electoral volatility would be high if there are both large positive or negative changes in vote share. Therefore, a strong positive relationship should be observed between economic improvement and electoral volatility.

Next, we will look at period 2, the period after the initial transition before the global financial crisis. This period roughly spans from 2004-2007. This period of three years marks the end of the economic transitions for these CEE nations. Between 2004 and 2007, all of the nations studied officially ascended into and joined the European Union, which requires each prospective member-state to conduct economic reforms, which provide for a functioning market economy prior to ascension. Since the economic transition from command- to a market-economy finished with induction into the EU in 2004, the economy stabilized. The stabilization allowed voters to focus their attention to sociocultural issues, leading to a weaker relationship between economic output and incumbent vote share. There should still be a relationship since nearly all voters express some degree of retrospective economic voting in democratic systems. This leads to Hypothesis 2: *During elections from 2004 until 2008, an improvement in economic measures should lead to a small positive change in incumbent vote share, and a worsening in economic measures should lead to a small negative change in incumbent vote share.* A weak positive relationship should be observed between economic improvement and electoral volatility.

Lastly, we will look at period 3, the period after the global financial crisis. This period roughly spans from 2008-2014, when most economists agree that Europe began experiencing its recessions. This period marks a heightened awareness of economic wellbeing in the minds of voters due to the reeling effects

of recession. However, contrary to the era of period 1, voters would not revert back to high levels of electoral volatility. These systems had aged, matured, and would continue to act according to the variety of social cleavages now politicized. Thus, voters would merely hold their governments ‘regularly’ accountable through retrospective economic voting. This leads to Hypothesis 3: *During elections after 2008, a worsening in economic measures should lead to a moderate negative change in incumbent vote share, and an improvement in economic measures should lead to a moderate positive change in incumbent vote share.* Voters now know how to properly hold their governments accountable and will do so during a time of economic recession with moderate levels of electoral volatility.

With these three hypotheses in place, how are we going to go about testing them? We will construct a statistical model and run Ordinary Least Squares (OLS) regression analysis to see whether or not a relationship can be found between national economic performance and electoral volatility in Central Eastern European democracies. For this model, we aim to understand the effects of economic performance on electoral volatility. Therefore, electoral volatility, as defined as the change in incumbent government vote share, will serve as our dependent variable, and national economic performance will serve as our primary independent variable. Economic performance can, however, be measured in a variety of different ways. Therefore, we will use a regime of economic variables that gauge the different aspects of economic activity (output, labor, and capital) by tracking national annual GDP growth, unemployment rates, and inflation rates, respectively.

Though a relationship might exist between economic and electoral outcomes, the economy is not the only factor that plays a role in determining electoral volatility. The size and scope of a nation’s party system does as well. If more parties enter the political realm, the ability to garner votes compared to the prior election decreases (Roberts 2008). To counteract the natural effects the state of the party system has on electoral volatility, we will control for changes in party system size by measuring the change in the Effective Number of Parties (ENP). This would track how the nation’s party system expanded or contracted since the previous election.

Additionally, we want to control for other factors, including the number of governing parties, the age of the democracy, specific unseen national differences, and unseen trend differences. Since consensus governments have multiple coalition partners, voters might not be able to properly hold incumbents accountable, thereby artificially reducing electoral volatility (Clark, Golder, and Golder 2012). As a democracy ages, voters could learn how to better allocate their votes or entrench party preferences, diluting the effects of retrospective economic voting (Duch 2001). In addition, specific time trends or nation trends could mistakenly impact accountability mechanisms, which can easily be taken into account through dummy variables. With these variables in place, our theoretical model should like:

$$\text{Electoral Volatility} = \alpha + \beta_1(\text{GDP growth}) + \beta_2(\text{Unemployment}) + \beta_3(\text{Inflation}) + \beta_4(\text{ENP change}) + \beta_5(\text{Age of Democracy}) + \beta_6(\text{Number of Governing Parties}) + \beta_7(\text{Trend/Country Dummies}) + \varepsilon.$$

In the next section, we will define these variables and discuss how they are measured.

Though the theory and hypotheses presented might seem most logical in trying to understand why the degree of electoral volatility in CEE countries varies over time, different and competing hypotheses do exist. Instead of the theory initially presented – high initial accountability to compensate for a lack of strong social cleavages, eventually moderating as voters learn more about how democracies best function – some scholars contend that retrospective economic voting will only strengthen as a democracy ages. Primarily advocated by Duch, this theory argues that voters do indeed learn. As voters learn and become more effective at interacting with democratic institutions, especially elections, distracting sociocultural cleavages will diminish, leaving the political debate. Voters would care more about issues that have a direct impact, mostly economic wellbeing and standard of living measurements, and will become more effective at holding their elected officials accountable through retrospective economic voting. This would increase the strength of the relationship between economic outcomes and incumbent performance as the democracy ages over time, thereby creating an increasingly strong positive relationship between these two variables.

With these hypotheses and theories in place, the heart of the research can start. However, before testing these hypotheses, definitions of our variables must be established. From there, we can understand

what specific aspects of electoral volatility we are studying and how that interacts with specific portions of the social discourse.

## Chapter 4

### Operationalization

In order to understand the model above, clear definitions of the dependent, independent, and all control variables are necessary. This section seeks to explore, set, and justify those definitions, as well as provide resources on where they can be found and scrutinized.

In this study, we seek to understand the fluctuations of electoral volatility. But what exactly is electoral volatility? Scholars commonly agree that electoral volatility is the net change of votes within a national party system (Pedersen 1979). Quantifying this net change could become tricky, especially if you measure the wrong phenomenon. Here, we propose that this net change in votes (electoral volatility) occurs because of voter electoral accountability on the incumbent's economic performance (retrospective economic voting). Therefore, we do not want to measure how many parties are entering and exiting the party system by using Pedersen Indexes; we want to measure how incumbent governing parties fare from election-to-election. To capture this effect, this research will define electoral volatility by measuring the change in incumbent vote share between elections  $t-1$  and  $t$ . For example, the incumbent party in the 2001 Bulgarian legislative elections was the Union of Democratic Forces (ODS). They came into government in 1997 ( $t-1$ ) with 52.02% of the vote. In 2001 ( $t$ ), they finished with only 18.18% of the total vote. Therefore, the change in incumbent vote share for the 2001 Bulgarian election was 33.84%.

In order to best represent electoral accountability on incumbents, this research tracks voting results from legislative elections, as most of the countries studied are either parliamentary or semi-presidential democracies where the government cabinet is responsible to and policymaking comes from the legislature. If the country had bicameral legislatures, this research only examined results from the lower chamber. For the sake of Hungary with both list and district votes, only list vote shares were studied to better gauge the national will of the electorate. I collected these figures primarily from the Inter-Parliamentary Union PARLINE database. Missing figures or elections were corroborated with the European Election Database and respective national statistics ministries.



To measure the other half of the theory – economic performance – this study includes a regime of common and diverse macroeconomic variables. To calculate the overall health of the economy, I included real GDP annual growth rates. Real GDP measures the sum of all final goods and services produced within a given year with inflation-adjusted dollars. Therefore, the most effective and common method in determining the health of an economy would be looking at its change in real output from year-to-year. These figures were all taken from the annual Transition Reports published by the European Bank of Reconstruction and Development (EBRD).

Though GDP growth might capture the health of the overall economy, it might not reflect its impacts on individual voters. Growth might occur, while leaving voters without jobs, thereby distancing the voter from the governing parties. To account for importance of job growth for the electorate, I included annual national unemployment rates. I obtained these figures primarily from the EBRD Transition Reports, but where there were holes in the data I turned to World Bank, Eurostat, and national government publications. All of these sources define unemployment as the percentage of the all people between the ages of 15 – 75 actively looking for work in the labor force.

To fully round out the regime of economic indicators, I also measured the rates of annualized inflation within these countries. Even if the economy grows and voters are gainfully employed, they would continue to vote against incumbents if their money becomes worthless due to excessive inflation. I sought to measure annualized rate of inflation to standardize measurements; however, in six observations, the EBRD only provided year-end rates and not annualized figures. Seeking consistency, I once again relied on the EBRD for these figures.

With all of the economic indicators, I wanted to measure their direct effects on electoral outcomes. Therefore, I needed to properly align the dates of the elections and the periods that the economic figures tracked. Unfortunately, monthly or even quarterly figures are not consistently available for these countries since 1989. Therefore, I followed the standard set by Andrew Roberts. If the election was held in the latter half of the year (July-December), I took the economic data for the year, i.e. 2013 electoral results with 2013

economic figures. However, if the election was held in the beginning half of the year (January-June), I took the economic data from the prior year, i.e. 2013 electoral results with 2012 economic figures.

While controlling for the size and fluctuations within a country's party system, I measured the change in a nation's expected number of parties (ENP). I followed the standard equation set by Laakso and Taagepera:  $N = \frac{1}{\sum_{i=1}^n p_i^2}$ . In standard terms, ENP (N) is calculated by taking fraction of the sum of the square of each party's,  $i$ , proportion of seats won in the legislature ( $p_i^2$ ). In essence, in a given national election I would square each party's proportion of seats won. Then add all of those numbers together, and place all of that under one. This would give me a number indicating how many competitive parties exist in the nation's party system in that given electoral cycle. For example, if the ENP is 2.5, then that country's party system has two and a half competitive parties. For these figures, I relied on information from the PARLINE database and national government statistics.

In addition to controlling for party system size and stability, I also wanted to control for a smattering of other factors including the number of governing parties, age of the democracy, individual election trends, and individual national trends. For number of governing parties, I summed all parties included in the coalition government at the onset of the new governing session. I did not change the number if coalition partners exited government before the end of the term, as the electorate gave the parties a mandate to rule during the election. For age of democracy, I calculated the years elapsed from the time of the election since democratic institutions were established. Usually, this was the ratification and implementation of a new constitution. In the cases of Hungary and Poland, new constitutions were not officially adopted until 2011 and 1997, respectively, but both made sizable changes to existing constitutions in 1989 and 1992, respectively. For the last two remaining variables, I created dummy variables to capture these effects – 1 for first election, 0 if not; 1 for second election, 0 if not, etc., and 1 for Bulgarian election, 0 if not, 1 for Romanian election, 0 if not, etc.

My unit of analysis is country-year, meaning each observation is a particular national legislative election in a given year (i.e. Bulgaria 2001 or Latvia 2013). My sample includes all ten post-communist

EU member-states in Eastern Europe – Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. I wanted to only use Freedom House-rated democracies since incumbent vote share would be artificially inflated if authoritarianism plagued the government (Roberts 2008). In addition, I did not include Croatia, as it was only incorporated into the EU in 2013 and would not share enough of a common history to be comparable to its counterparts.

With clear definitions set, we can now go about testing our theory and its three corresponding hypotheses. We now know what we are measuring accurately reflects the relationships between our dependent, independent, and control variables.

## **Chapter 5**

### **Data Analysis**

How are we going to go about testing these hypotheses? By using OLS regression techniques with cross-national and time series data, we can create models that would accurately calculate the relationship between electoral volatility and retrospective economic voting. This would provide us with the direction, magnitude, and strength of the relationships necessary to determine causality.

The first step in testing the initial portion of my theory that explains the variance in electoral volatility with retrospective economic voting would be to determine whether or not economic voting exists at all in CEE democracies, regardless of time. To do this, I took a simplified version of the model outlined in Chapter 3. I regressed the change in incumbent vote share on national GDP growth, unemployment, and inflation rates controlling for the incumbent's prior vote share, and change in ENP. The estimated coefficients for growth and inflation are significant at the 90 percent level. A one-percentage point increase in GDP growth and inflation would cause a 0.54 percentage point increase and 0.11 decrease in the change of incumbent vote share, respectively. The estimated coefficients for ENP change are significant at the 95 percent level, causing a 1.73 percentage point decrease in incumbent vote share. Lastly, the estimated coefficient for prior vote share and the unemployment rate are significant at the 99 percent level with magnitudes of -0.62 and -0.84, respectively. In addition, this model explained 42.71% of the variation in electoral volatility. These figures can be found in Table 1, Model 1.

Though our first model captured much of the variance in the changes in incumbent vote share, other factors could influence electoral volatility that were not present in the previous model. Therefore, I created Model 1.1 to include factors such as the number of parties in the incumbent government and the overall age of the democracy. I included the number of governing parties because, in theory, the larger the size of the coalition, the greater potential for the government to collapse. The presence of many parties at

Table 1: Cross-National, Cross-Temporal Model

		<b>Dependent Variable: Change in Incumbent Vote Share</b>							
<b>Independent Variable</b>		<b>Model 1</b>		<b>Model 1.1</b>		<b>Model 2</b>		<b>Model 3</b>	
Prior Votes		-0.62	***	-0.69	***	-0.6	***	-0.73	***
p-value		0		0		0		0	
GDP growth		0.54	*	0.78	**	0.88	**	0.79	**
p-value		0.06		0.02		0.03		0.02	
Unemployment		-0.84	***	-0.74	***	-0.83	***	-1.1	***
p-value		0.00		0.01		0.01		0.01	
Inflation		-0.11	*	-0.03		-0.03		-0.1	
p-value		0.07		0.39		0.38		0.11	
ENP Change		-1.73	**	-1.75	**	-1.72	**	-1.9	**
p-value		0.03		0.04		0.04		0.03	
Number of Parties		-		0.58		-		-	
p-value		-		0.32		-		-	
Age of Democracy		-		0.45	**	-		-	
p-value		-		0.04		-		-	
Trend Dummy		-		-		Yes		-	
Country Dummy		-		-		-		Yes	
N		57		57		57		57	
R-sq		0.4271		0.461		0.4674		0.5415	
One-Tailed Test:		* p<0.10, ** p<0.05, *** p<0.01							

the decision-making table could lead to a government plagued with different and competing interests. If these parties are unable to come together and direct unified policy, then during the next campaign, voters will seek to punish all parties involved decreasing incumbent vote share irrespective of economic performance. Additionally, the age of the democracy could also influence the results of an election outside

the scope of government performance. Age would serve as a proxy variable for democratic consolidation. If voters become more accustomed to the functioning of democracy and start setting more reasonable expectations for their elected officials, they would be less willing to constantly change the party that is in power. This would influence incumbent electoral results not currently accounted for in the previous model.

Table 1, Model 1.1 shows that now 46.1% of the variation in incumbent vote share is explained through our model. More interestingly is how the inclusion of these two control variables affected the strength and magnitude of our previous regime of independent variables. At the 95 percent confidence level, the estimated coefficients of GDP growth, ENP change, and the age of democracy are significant. Now, a one-unit change in growth would lead to a 0.78 percentage point increase in the change in incumbent vote share; a one-unit change in ENP change would lead to a 1.75 decrease in the change in incumbent vote share; and a one year increase in the age of the democracy would lead to a 0.45 percentage point increase in the change of incumbent vote share. The estimated coefficient of GDP growth grew in strength and magnitude, and the estimated coefficient of ENP change increased in magnitude slightly. In addition, the estimated coefficients on the prior vote and unemployment retained its confidence level of 99 percent. Both variables had their magnitudes grow to -0.69 (prior vote) and -0.74 (unemployment). It is interesting to note that the estimated coefficient of the number of governing parties did not prove to be significant beyond the 90 percent level, and more importantly that inflation is now insignificant beyond the 90 percent level.

I also wanted to take into account time trends occurring during the election cycle. Similar to the idea of age serving as a proxy for democratic consolidation, including dummy variables for time trends helped me control for internal domestic political factors that do not affect economic conditions. I included a dummy for the first, second, third elections, all the way up to the potential seventh election. I left out the seventh election cycle variable to avoid collinearity. I also dropped both age of democracy and number of governing parties in Model 2. Across 57 observations, the strength of the relationships between my independent variables and electoral volatility remained constant. Both growth and ENP change passed a

95% confidence level, and prior vote share and unemployment passed a 99% confidence level. However, the sizes of these estimated coefficients changed. The magnitude of growth grew to 0.88, ENP change fell to -1.72, prior vote share fell to 0.6, and unemployment grew to -0.83. Model fit also grew to 46.74% of explained variance.

Since this is a cross-national, regional study, I also wanted to take into account specific national differences. Hypothetically, the political climate in Lithuania could be vastly different than that of Slovenia and could make Lithuania more prone to high rates of electoral volatility than Slovenia, regardless of economic outcomes. To control for these specific country-focused factors, I included a dummy variable for all 10 CEE nations, randomly withholding Slovenia to avoid perfect multicollinearity. By including these dummy variables in Model 3, now 54.15% of the variance is explained, while keeping the same significance levels across the regime of independent variables – GDP growth and ENP change at a 95% confidence level and prior vote share and unemployment at a 99% confidence level. The magnitudes of the estimated coefficients did change, however. Growth fell to 0.79, ENP change grew to -1.9, prior vote share grew to -0.73, and unemployment fell to 0.79. Once again, inflation does not pass any of the confidence level tests.

So what do these results say about the overall power of retrospective economic voting in CEE democracies? They say that it exists, it has a sizable impact on elections and government formation, and that unemployment and GDP growth are more important aspects of the economy than inflation rates. Let's look at GDP growth. The relationship passes a confidence level of 95% for a one-tailed test, signifying a strong relationship with vote share change. The direction of the relationship proves to match the positive expectation, meaning that an increase in GDP growth rates would lead to a positive change (increase) in incumbent vote share – voters rewarding incumbents for directing economic growth, and the magnitude of that relationship is rather stable. A one percentage point increase in the annual growth rate running up to the election would cause a 0.79 percentage point increase in incumbent vote share. Let's extrapolate that to a situation of explosive economic growth of 5 percent. That would increase incumbent vote share by 3.95 percent. Though this might sound like a rather low magnitude, four percent vote share could be the

difference between getting into government or not. Furthermore, it could mean needing to add additional coalition partners or not.

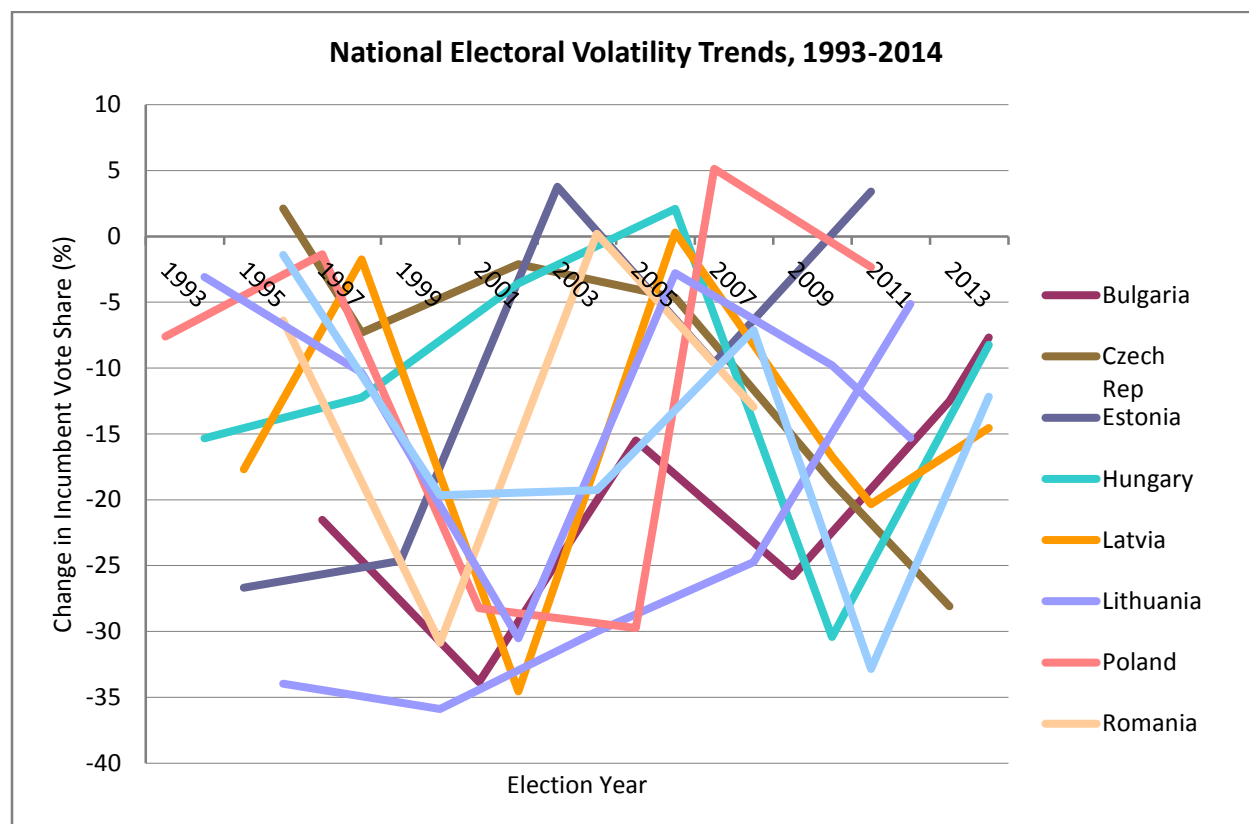
The other instance would be unemployment. There is an extremely strong relationship, passing a significance test of 99 percent. But the magnitude hovers around -1.1 percentage points. Therefore, if a government manages to decrease the national unemployment rate by one percent in one year (a very notable accomplishment), it can expect a 1.1 percentage point return in vote share in the upcoming election. With the data matching both the expected direction, strength, and magnitude of the relationship, we can sufficiently say that across time and countries, retrospective economic voting does exist within these democracies – voters do indeed look at economic performance and attach votes to the government's performance in economic policy.

Despite the strong relationships between vote share and unemployment and GDP growth, it is still significant to note the unimportance of inflation on voting patterns. In Model 1, the relationship with inflation showed significance at the 90% confidence level. However, in Models 1.1, 2, and 3, including additional control variables, the relationship with inflation quickly became insignificant at any confidence level. This could lead us to believe that inflation is not a major determinant of voting patterns because 1) historically communist regimes prided themselves on reaching full employment, not low inflation rates, and these new experiences of high unemployment during the transition process led to high rates of volatility (Roberts 2008); or 2) national inflation rates did not exceed the threshold of stable inflation rates (roughly 1-3%) to enter into the political dialogue. However, the data speak otherwise. Inflation often exceeded the 3% mark in nearly every country, leading us to believe in the first explanation for the decreased importance of inflation.

Now that we can confidently claim that retrospective economic does exist by-and-large in CEE democracies, let's analyze our hypotheses on the tri-temporal model to understand the current and future trends of retrospective economic voting in Eastern Europe. Remember, in short, we claimed that during the times of economic transition (1989-2004), electoral volatility would be high, the times of economic



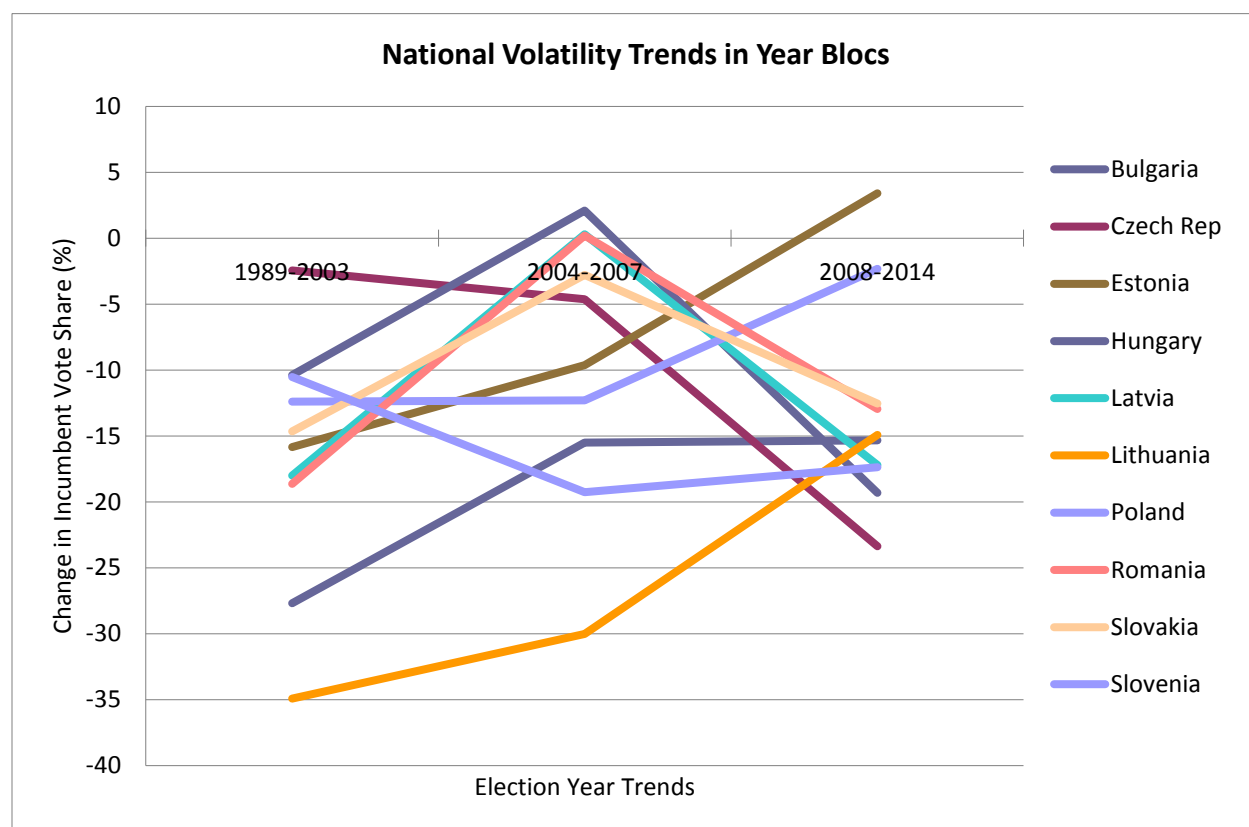
stabilization and expansion (2004-2008) would lead to lower levels of electoral volatility, and the times of economic malaise (2008-2014) would lead to moderate levels of electoral volatility. Further explanation on these hypotheses could be referenced in the Theory section. Before we hastily run into the regression analysis, it might prove beneficial to look at the summary statistics to see if our hypotheses line up with the raw historical data.



**Figure 1: National Electoral Volatility Trends, 1993-2014**

Though this histogram might resemble a tangle of ten different lines, trends become apparent once we look at these individual lines closely. For a majority of these countries, we see electoral volatility plummet in the first few elections with democratically elected incumbents. Initially, incumbent government vote share changes have a range roughly clustered between -15 and 5 percentage points. By the end of 2003, those figures drop to a range of -15 to -35 percentage points. Between 2004 and 2008, two-thirds of the countries studied lie in between a range of 0 to 5. Lastly, after 2008 the range once again falls to an area between 0 and -32. Since electoral volatility is the size of the change in vote share from zero – be it positive

or negative – we see huge swings in electoral volatility preceding 2004 and after 2008, moderating in between. These initial findings help support our three time-dependent hypotheses.



**Figure 2: National Volatility Trends, Year Blocs**

To help simplify Figure 1 and accentuate the changes in voting patterns based on our time period model, I took the electoral averages during each specified time bloc for each year. Then, I graphed those three points for each nation to see if a trend formed across the region. By referencing the graph above, we can confirm our initial findings. For every country, except Slovenia and the Czech Republic, electoral volatility moved closer to zero during the elections between 2004 and 2007. In the elections after 2008, we see a decreasing or no change trend in 6 of the ten countries studied. Though these rough trends do not show our time-dependent hypotheses to be true, they do lay a foundation that our hypotheses are not unreasonable and could potentially represent reality.

In order to establish a more causal relationship between economic performance and electoral volatility with the hypotheses in our tri-temporal trend model, I conducted a regression analysis, splitting

the model up into two time periods: pre-2004 and post-2004. Unfortunately, when attempting to run our model during the elections between 2004 and 2008, the model ran out of degrees of freedom preventing any credible results from forming. I do not presume omitting the final time bloc (2008-2014) should be problematic. By analyzing our theory, we propose that electoral volatility should be high prior to 2004, low from 2004-2008, and moderate from 2008 onwards. If we combine period 2 and 3, we should still expect lower levels of electoral volatility than in period 1. Our graphs above support that proposition. Though some countries differ, voting patterns have remained closer to zero after 2004 than prior to that date. Therefore, we transform our tri-temporal model into a bi-temporal model by testing two hypotheses: Hypothesis 1: *During elections prior to 2004, an improvement in economic measures should lead to a strong positive change in incumbent vote share*; and Hypothesis 2: *During elections after 2004, an improvement in economic measures should lead to a small or moderate change in incumbent vote share, noticeably less than the years prior to 2004.*

In table 2, we see the results of our regression analysis. For all three models, we regressed the change in incumbent vote share on growth, unemployment, and inflation, controlling for prior vote share, ENP change, and country dummies. Column 1 represents the cross-temporal model from table 1 running from 1989 until 2014. Column 2 represents period 1 of our time-dependent model, including elections from 1989 until 2003. Column 3 represents periods 2 and 3 combined in our time-dependent model, including elections from 2004 onwards. In the pre-2004 model, we have 26 elections with 72% of the variance explained. With the exception of prior vote share, the only independent variable shown to have a significant relationship with electoral volatility is unemployment. Unemployment is shown to be significant at the 90% confidence interval with a magnitude of -1.76. Neither inflation nor growth show significant relationships at any level of confidence.

Table 2: Cross-National, Bi-Temporal Model

Independent Variable	Dependent Variable: Change in Incumbent Vote Share					
	1989-2014 Model		pre-2004 Model		post-2004 Model	
Prior Votes	-0.73	***	-0.85	***	-0.72	**
p-value	0.00		0.01		0.04	
GDP growth	0.79	**	0.84		1.23	**
p-value	0.02		0.26		0.04	
Unemployment	-1.1	***	-1.76	*	-0.98	*
p-value	0.01		0.10		0.09	
Inflation	-0.1		0.003		-2.05	*
p-value	0.11		0.49		0.07	
ENP Change	-1.9	**	-1.36		-1.54	
p-value	0.03		0.19		0.25	
Country Dummy	Yes		Yes		Yes	
N	57		26		28	
R-sq	0.5415		0.7214		0.6393	

One-Tailed Test: \* p<0.10, \*\* p<0.05, \*\*\* p<0.01

In the post-2004 model, we have 28 election observations with 64% of the variance explained. Now, aside from prior vote share, all three economic variables show a significant relationship with electoral volatility. Unemployment continues to be significant at a 90% confidence interval with a magnitude dropping to -0.98. Growth becomes significant at a 95% confidence interval with a magnitude of 1.23, and inflation becomes significant at a 90% confidence interval with a magnitude of -2.05. The directions of all three of these relationships conform to our expectations.

In relating to our three hypotheses, these results seem to nullify our theory and support Duch's hypothesis of increasing retrospective economic voting over time. When analyzing these two time periods,

retrospective economic voting seems to get stronger as time progresses, not weaker. In the period before economic stabilization and entry into the EU, only unemployment proved significant in affecting government longevity and at a relatively low significance level. After 2004, including elections during the Great Recession, all three economic variables showed signs of significance and strong magnitudes. A one percentage-point increase in inflation should lead to a 2.05 decrease in the change in incumbent vote share; a 1.23 increase with a one-percentage point increase in growth; and a 0.98 decrease with unemployment. Overall, the strength of economic voting increases as CEE democracies move into a time of democratic and economic stabilization.

Two things to note: unemployment becomes less important, and inflation becomes important. In our cross-temporal model, unemployment remained paramount in guiding the change in incumbent vote share. It always showed significant at the 99% confidence interval and it had high magnitudes. For the first time, unemployment actually becomes less dominant in determining voting patterns. Instead of showing a significant relationship at the 99% confidence interval, unemployment only shows a relationship at the 90% confidence interval across both periods, even as retrospective economic voting gains in traction. Additionally, the size of the magnitude of unemployment falls and is surpassed by the strength and magnitude of growth. Between the pre-2004 model and the post-2004 model, the magnitude of unemployment drops by 44 percent. Though a magnitude of -0.98 is rather sizable, the loss in power is notable.

Compounding the loss of power in unemployment, inflation for the first time becomes important. Though only showing significance at the 90% confidence interval, inflation has its first significant relationship with electoral volatility in a specified model with a rather large magnitude of -2.05. This signifies that other economic factors are beginning to affect voters and their evaluations of the governments. No longer are voters just looking at their own jobs and personal standards of living. They are looking to overall economic performance, especially in regards to macroeconomic growth and price stability.

So what might cause this decreased importance of unemployment and increased importance of macroeconomic indicators? A few explanations could answer this question. The first answer could lie in the trends of unemployment and inflation. If unemployment stabilizes and inflation destabilizes, then voters will care less about the national unemployment rates and more about inflation rates. In essence, voters will concern themselves with whichever economic indicator is performing more poorly. Therefore, we should see a converging trend of unemployment to a level around the natural rate of unemployment (about 3-5%) and a destabilizing rate of inflation (above 3% or below 0%) after 2004 across the region.

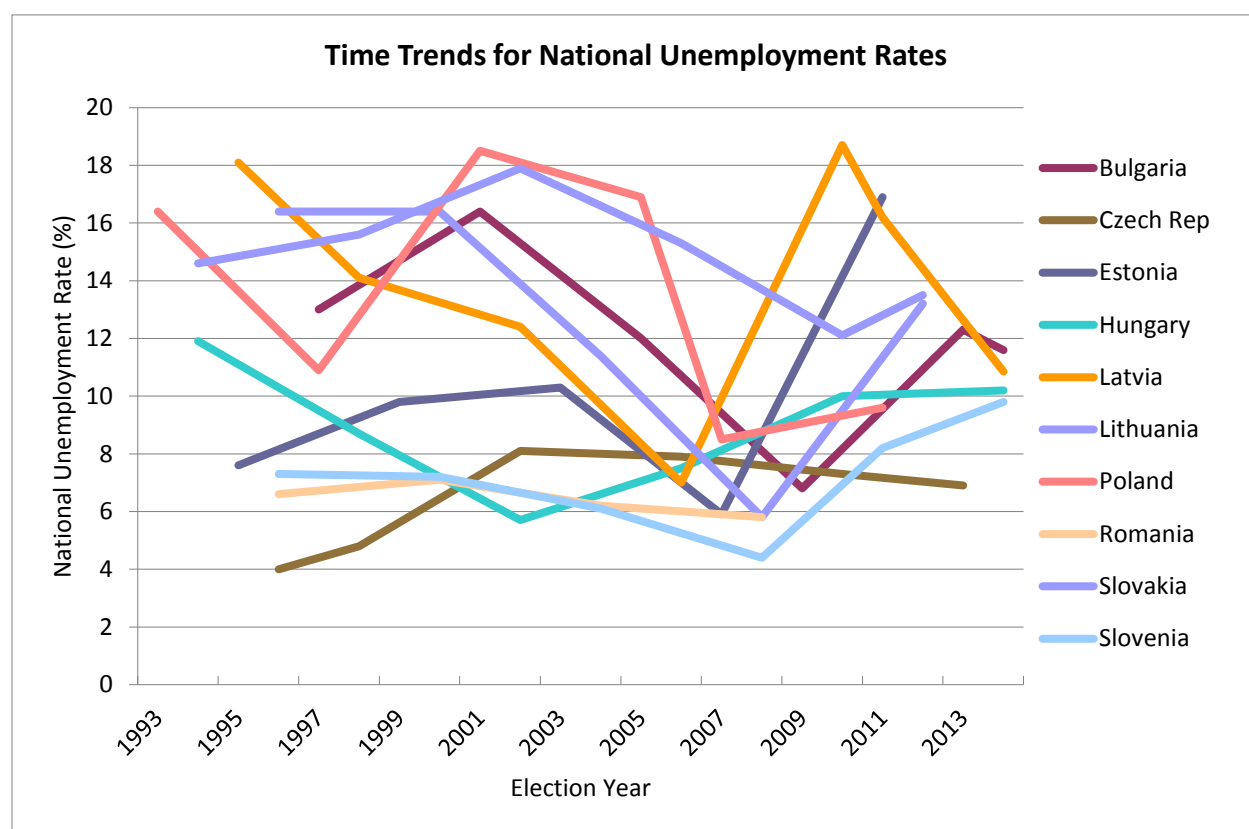
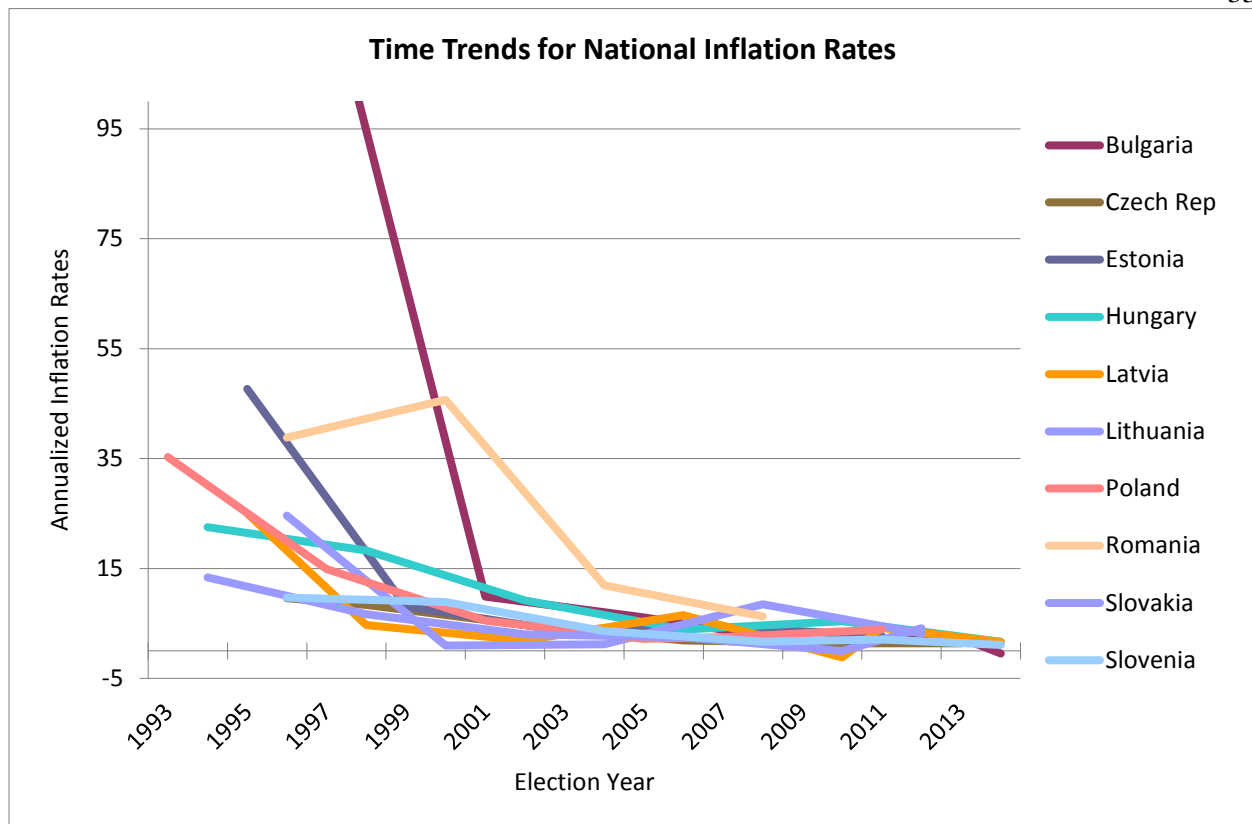


Figure 3: Time Trends for National Unemployment Rates

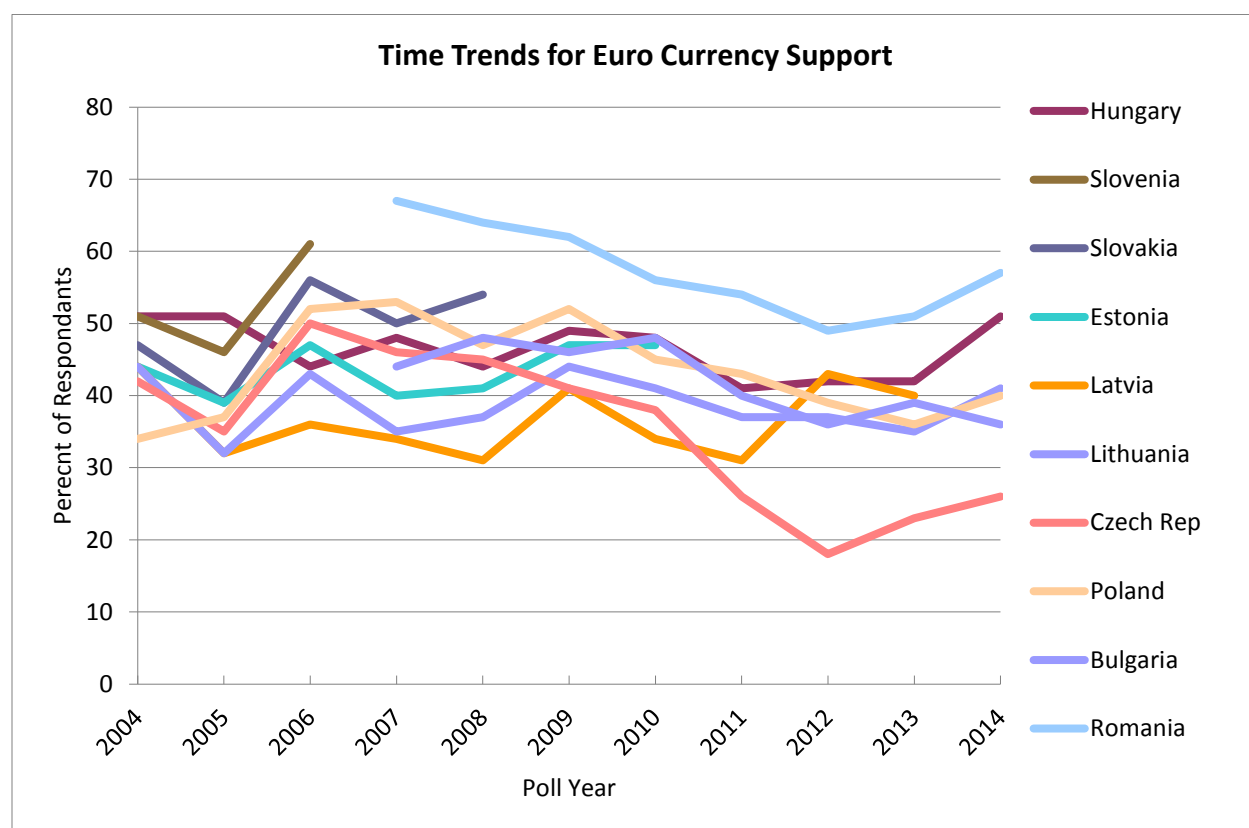


**Figure 4: Time Trends for National Inflation Rates**

Figures 3 and 4 tell a different story. Though unemployment began to stabilize around 2004, it quickly destabilized in the aftermath of the Global Financial Crisis. Additionally, inflation has stabilized since 2001 across every country in the region. These trends repudiate our claim that the decrease importance of unemployment and increase importance of inflation merely mimics the trends occurring in these countries. Other external factors seem to be at play outside the realm of natural economic trends or fluctuations.

The second answer to the changes in unemployment and inflation importance trends could lie in entry into the European Union. All ten nations studied entered into the EU between 2004 and 2007 apart of the EU's eastward expansion. A part of all ascension negotiations include the implementation of a functioning free-market economy and future eventual adoption of the common-currency, the euro. However, the prerequisites for entry into the Eurozone are much stricter than entry into the EU, and the requirements for euro adoption rest on each nation's ability to meet the convergence criteria. A member

state seeking to adopt the euro must exhibit price stability (stable inflation), sound public finances, sustainable public finances, durability of convergence, and exchange rate stability – all macroeconomic indicators (European Commission 2014). Since 2007, only five of the ten nations of the eastward expansion met those requirements and introduced the euro as the official currency. Therefore, since 2004, governments have been focusing on meeting those criteria for Eurozone entry by managing macroeconomic indicators, primarily inflation rates and GDP growth. Voters, wanting the benefits of greater economic integration and the economic investment associated with Eurozone inclusion, now hold the government accountable for strides made on meeting the convergence criteria, not solely focusing on domestic unemployment rates.



**Figure 5: Time Trends for Euro Currency Support**

Figure 5 helps assert this claim. This graph shows what percentage of respondents believed that the euro would have positive impacts to the national economy. Though there might not be a strong upward trend in positive perceptions of euro effects on the national economy across every country, a sizable population in each country thinks of the euro positively. By and large 30-50% of the population in each



country believe that euro adoption will positively affect their country nationally. That voting contingent could be enough to lead politicians and governments to focus attention on meeting convergence criteria over domestic unemployment rates, thereby explaining the increased voter focus on macroeconomic indicators over unemployment rates.

These data have taught us a few very important things. First, retrospective economic voting does exist in Central Eastern European democracies across time, with a heavy focus on unemployment and a moderate focus on GDP growth rates. Second, retrospective economic voting actually increases over time, especially once the economy stabilizes and these countries join the European Union, lending support to Duch's hypothesis. Third, unemployment rates have become less important and macroeconomic indicators have become more important as retrospective economic voting increases with time. We cannot justify this effect through natural fluctuations in unemployment and inflation, but potentially through a greater national focus on joining the Eurozone and meeting its convergence criteria. Though our three hypotheses might have been incorrect, we have discovered some very important findings that could perhaps lead this field to some valuable conclusions.

## **Chapter 6**

### **Conclusion**

Now that we have completed our data analysis, tested our hypotheses, and pried away at different aspects of our theory, let's understand the core findings from this research and how this contributes to the broader field of Eastern European politics and party system formation. Here, we will recap our major findings and why they are important, address the problems and limitations of this research study, and lastly set the foundation for future research exploring the questions that need to be asked.

What are our major findings? Our first major finding is that retrospective economic voting does indeed occur in and across Central Eastern European democracies. In previous literature, some showed that economic voting occurred within these democracies, but many still debated if this type of voting occurred across the region. Based on our results in the cross-temporal and temporal-separating models, changes in incumbent vote share and electoral volatility can be linked to prior changes in national economic conditions – key markers of retrospective economic voting. Why is this important? The sustained presence of economic voting in these countries points to further democratic consolidation. The foundational voting patterns based on performance accountability in Eastern Europe resemble that of many consolidated democracies found in North America and Western Europe. This effect help points to the fact that democratization is a gradual process and closely linked with economic wellbeing. Therefore, as other regions of the world continue or begin to democratize, policymakers must simultaneously address economic conditions.

Our second major finding suggests that retrospective economic voting increases over time in Central Eastern European democracies. Though the theory pursued in this research was not consistent with the data, the null results do provide valuable findings. It seems that despite the formation and consolidation of politicized sociocultural cleavages in the nations studied, economic impacts still remained dominant in

determining voter choices. The fact that economic voting increased, even after national economic stabilization and entry into the EU, suggests that Duch's learner theory could be correct. Though this research did not attempt to test Duch's hypothesis, our data and results were consistent with his theory. Why is this important? First, it indicates trends in Eastern Europe that we could expect in the future. If the public's eye will continue to look first at the economy, policymakers wishing to stay in power ought to focus on improving economic conditions of their people. Additionally, these results show that accountability mechanisms do not fade but continue to grow over time. Voters begin to learn how democracy functions and the most effective means of holding their leaders accountable. Political elites ought to take note of this trend and appeal to their voter base through these mechanisms.

Our last major finding points to a weakening of communist legacies in these politically and economically vibrant CEE democracies. With the passage of time, the focus on unemployment as the primary gauge of economic performance decreased. Remember, it has been thought the CEE voters focus so much on unemployment, at the expense of GDP growth and inflation, because of the past promises made by the prior communist regimes. Citizens within communist countries experienced inflation and recession, but never unemployment – the government always promised full employment. Now, it seems, voters are becoming more accustomed to varying rates of unemployment, shedding their communist legacies, and are starting to focus on other macroeconomic variables important to economic wellbeing. More importantly, time is not the cause of this phenomenon. CIS countries are still trying to find a balance between liberalism and communism that does not exist in CEE. The more likely cause of communist-legacy shedding is the stabilization of the economy and lasting structural political reforms. We see this change of attitude mostly after 2004, when most of the CEE joined the EU or were entering the homestretch of their ascension negotiations. Economic stabilization helped stabilize voter preferences and opened new avenues for political dialogue.

Why is this last finding important? As the international community attempts to democratize the CIS and the Balkans, a roadmap for pluralism and liberalism has begun to emerge. Many of these post-

Soviet states share many historical and cultural commonalities with CEE countries, especially the Baltic States. Therefore, the international community can take a similar approach to democratization through economic expansion and political stabilization to these countries. This process addressing institutions and economics through involvement of international institutions, such as democratic reforms with the EU, economic reforms with the IMF, and security concerns with NATO, has stabilized the volatility in these countries and led to economically thriving and functioning democratic states. Additionally, this same roadmap could potentially extend to other currently democratizing areas, like Southeast Asia or Latin/South America.

Though this research has brought many important findings, it was by no means perfect. Shortcomings do unfortunately persist, so let's explore them. First, more data are needed. Due to a lack of data, I could not successfully test my proposed tri-temporal model. More data from more elections would have proven helpful to understanding how post-transition economic crises affect developing democracies, and if any changes persist despite the continuation of political cleavage formation. Despite the fact that more data points are obviously more useful in panel datasets, additional elections could have enabled me to properly specify this research according to my proposed set of hypotheses and attempt to study more precise changes in the data.

This lack of data helps move us into the second major weakness – the inability to properly specify our model to our underlying theory. Though I do not believe that the differences grossly affect the results of this study, being able to properly differentiate economic voting patterns during periods of economic stability and expansion outside periods of global economic recession could have proved insightful and more consistent with reality. It would enable us to eliminate distracting 'noise' from the results and truly understand the effects that individual national economic performance has on national voting patterns in CEE democracies. Properly specifying the model into the tri-temporal hypotheses could have given us a more clear representation of those results.

The last major shortcoming of this research lies in the inability to show that our theory was consistent with the data. Though, in and of itself, null results are not shortcomings, it does limit our ability to draw substantive conclusions with theoretical explanations. Our null results do not prove Duch's hypothesis of learner theory – they only fall in line with some of the overarching claims he makes. In addition, with these unexpected results, attempting to find their reasoning or explanations proves more difficult. We did not prove increased EU-integration strategies explaining the rise in prominence of inflation and GDP growth, we only brought some of those correlations to the conversation as potential explanations. With these null results, our theoretical explanations seem limited.

However, all is not lost. This research has paved the way for potential future research studies. The first and most apparent course of action would be to test Duch's learner theory hypothesis. Though this research counts as a strike against cleavage theory, Duch's learner theory has still yet to be proven or applied to Eastern European democracies. It would prove vastly beneficial for the understanding of Eastern European party formation and the general field of democratization whether or not retrospective economic voting will always increase as voters learn how to become better at using accountability mechanisms. This could help give greater guidance to those leading political transitions how to properly consolidate democracy and stabilize party systems.

Second, further research could be conducted at the subnational level. Economic differences persist at the subnational level with different rates of unemployment, inflation, and economic growth varying between provinces, regions, and geographic divisions. It would be tremendously useful to see if these national and regional trends of retrospective economic voting occur at the subnational level. That could show a persistent effect and further elucidate the effects of the emergence of democracy in this region.

Lastly, future research should specifically revolve around the impacts of international institutional involvement and its effects on both economic stability and electoral volatility. Much of this research talked about the potential effects of entry into the EU on these CEE democracies. Greater study into these effects should be conducted in determining whether or not international institutions and international involvement

has any effect on the democratization process. In addition, that research should extend beyond just Eastern Europe and seek to understand how institutions could affect democratizing regions today.

This research brought many issues into light and offered many crucial findings to electoral studies in Eastern Europe. We initially asked: why does electoral volatility in Central Eastern European democracies vary across time? And we attempted to answer that question by attributing it to differences in voters' preferences to vote based on economic conditions, called retrospective economic voting. Though we initially believed that economic voting should diminish as more sociocultural cleavages politicize replacing the importance of the economy, we found the opposite to be consistent with our data. We concluded that 1) retrospective economic voting does indeed occur across CEE democracies; 2) economic voting actually increases over time, especially after entry into the EU; and 3) that the legacies of communism appear to have diminished with the lessened focus on unemployment rates. Hopefully, this research can guide policymakers and scholars alike to draft solutions in Eastern Europe and around the world to stabilize electoral systems, understand the relationship between government and the economy, and continue the gradual process of democratization.

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## ACADEMIC VITA

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### EDUCATION

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**The Pennsylvania State University, Schreyer Honors College** *August 2011-May 2015*  
B.A. International Politics, B.A. Economics, Russian Area Studies (minor)  
Languages: Russian, French, Lithuanian

**St. Petersburg State University, St. Petersburg, Russia** *January 2014-May 2014*

- Primary Subjects: Russian Politics, Ethnic Relations, Russian Language
- Role of the Presidency in Russian political life and political issues resulting from ethnic tensions

### HONORS & AWARDS

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- Grand Student Marshall, *Department of Economics*
- Schreyer Scholar, *Schreyer Honors College*
- Paterno Fellow, *College of the Liberal Arts*
- Strategic & Global Security Scholar
- Evan Pugh Scholar, *The Pennsylvania State University*
- Phi Beta Kappa Academic Honor Society

### PROFESSIONAL EXPERIENCE

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**PricewaterhouseCoopers, LLP, McLean, VA** *June 2014–August 2014*  
*Public Sector Advisory Intern*

- Worked in the Federal Data & Analytics group to conduct research and grow the practice
- Conducted quantitative data analysis on healthcare issues surrounding hospitals and demography
- Wrote proposals for government RFPs to win new contracts
- Created business development promotional materials presented before internal and client audiences

**Vilnius City Municipality, Vilnius, Lithuania** *July 2013*  
*International Affairs Intern*

- Helped orchestrate and host municipal conferences with foreign delegations
- Conducted qualitative research regarding international outreach projects
- Drafted memos and official press releases for the International Relations division
- Participated in a European Commission conference on “Energy security in the Baltic Sea Region”

**Office of U.S. Congressman Mike Fitzpatrick (PA-8), Washington, DC** *May 2012–June 2012*  
*Staff Assistant Intern*

- Wrote speeches for the Congressman delivered on the House Floor
- Researched legislative issues for policy and appropriations proposals
- Wrote district correspondences addressing constituent concerns

### ASSOCIATIONS & CAMPUS INVOLVEMENT

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**Alliance Christian Fellowship, University Park, PA** *February 2012– Present*  
*President, Head Elder, Bible Study Leader*

- Directed the 10-member executive board and managed its functions
- Acted as the voice and leader of our student body to our adult-community church
- Coordinated both the internal and external communications for the campus fellowship

- Led a Bible study group throughout the semester

**Penn State International Affairs & Debate Association**, University Park, PA *August 2011–2013*  
*PHUNC Chief of Staff (2013), Undersecretary General for Crisis Development (2012)*

- Planned the 2013, 2012 Pennsylvania High School United Nations Conference (PHUNC)
- Managed an eight-member Secretariat staff, and six individual committee staffs
- Developed crisis scenarios with the committee chairmen
- Trained members through simulations, scenarios, and information sessions

**Penn State Journal of International Affairs**, University Park, PA *March 2012–December 2014*  
*Executive Editor, Coordinator of Social Media*

- Spearheaded the Journal's media presence on social networking sites (e.g. Facebook and Twitter)
- Established future funding schemes and coordinated staff-wide meetings
- Reviewed and edited journal article submissions focusing on diverse geopolitical issues
- Published Penn State's sole student-produced academic journal