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Social democratic austerity: the conditional role of agenda dynamics and issue ownership

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ABSTRACT

Over the past 30 years, left-wing parties have increasingly abandoned the interests of their core constituency to embark on a right-wing journey of fiscal austerity. I argue that the changing partisan pattern in fiscal policy can in part be explained by analysing social democrats' need to signal fiscal competence. Drawing on issue ownership theory, my starting point is that voters perceive the Right as better able to balance the budgets than the Left. This leads left-wing incumbents to compensate for their bad fiscal reputation when concerns about balanced budgets are salient in the political system. They do so by reducing spending and budget deficits as much or even more than right-wing governments. In this way, an asymmetric fiscal reputation makes partisan differences in fiscal policy disappear. Support for my claims is found estimating a set of error correction models with data from 21 Organization for Economic Co-operation and Development countries between 1980 and 2006.


KEYWORDS Austerity; fiscal policy; fiscal reputations; issue ownership; political parties

Introduction

'We must reduce public spending to reduce public debt, lower taxes, and release the pact of responsibility' (RT 2014). These were the words of the left-wing president of France, François Hollande, when he presented his new policy plan at a press conference in Paris in January 2014. Labelling the initiative 'the responsibility pact', Hollande disclosed his plans to cut government spending by 4 per cent of gross domestic product (GDP) over a three-year period, give tax cuts to French companies, and reduce the burdens on businesses in general (Hollande 2014). Indeed, it was no joke when the president had to assure the participants at the press conference that he was still 'a social democrat' (Rubin 2014).

This is not the first time a social democratic¹ politician has sounded more like a conservative. Over the past 30 years, the difference between left- and right-wing fiscal policy has become more blurry. This transformation

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questions the well-established ‘politics matters’ explanation of the link between political parties and the economy. Pioneered by the seminal work of Hibbs (1977), traditional partisan literature holds that parties conduct policy in accordance with the interests of their core constituency. This implies that left-wing governments are expected to run budget deficits more frequently and expand government spending, while right-wing governments should engage in austerity policies that reduce spending and balance the budgets. However, as the French example above reveals, this is not how the politics of fiscal policy seems to unfold today. Why are left-wing governments increasingly conducting fiscal policy against their own partisan interests?

In this article, I argue that handling reputations and competence strategies of decision-makers are important – yet so far neglected – factors behind these recent changes in fiscal policy-making. According to issue ownership theory, the majority of voters perceive right-wing parties as better able to control government spending and balance budgets than left-wing parties (Bélanger and Meguid 2008; Petrocik 1996; Seeberg 2016). This reputational disadvantage of the Left constitutes a major threat to social democratic governments that seek re-election. As concerns about fiscal austerity and budgetary prudence become salient on the political agenda, the electorate’s mistrust will increasingly become an electoral vulnerability potentially leading to substantial vote losses for the Left. I argue that to avoid this scenario, left-wing governments will engage in a *competence strategy* to improve their fiscal reputation. The strategy requires an exceptional degree of fiscal discipline in actual policy: Left-wing governments should cut spending and balance budgets as much or even more than the Right when budget austerity is high on the political agenda. In this way, the Left’s attempt to compensate for a bad reputation erases partisan differences in fiscal policy.

I test my argument using a time-series cross-sectional (TSCS) research design with data from 21 Organization for Economic Co-operation and Development (OECD) countries between 1980 and 2006. The results support my theoretical propositions. When little attention is paid to austerity in the political system, we observe partisan differences between left-wing and right-wing governments. However, as the saliency of austerity increases, this partisan pattern vanishes or reverses. The conclusion is generally robust when a variety of controls and robustness tests are applied to the estimated models.

The findings add to our understanding of how politics matters to economic policy in a political landscape characterized by weakening voter–party linkages and increasing electoral volatility. For governments, fiscal policy-making is not only about catering to their core constituents’ interests. Governing parties also have to convince an increasing group of swing voters of their ability to solve the problems that are salient on the political agenda. This can create complex dilemmas for incumbents, and finding the right balance

between re-election ambitions and policy preferences can be difficult. By incorporating theoretical elements of issue ownership and agenda dynamics into traditional partisan arguments, this article tries to improve our understanding of these political processes and their policy consequences.

The partisan literature

The 'politics matters' view in the comparative political economy research dates back to the 1970s (Hewitt 1977; Hibbs 1977; Tufte 1978) and has gradually evolved into an extensive literature (e.g., Guinaudeau 2014; Huber and Stephens 2001; Imbeau *et al.* 2001; Korpi 1989; Raess and Pontusson 2015). As summed up by Hibbs (1992: 361–2), the partisan argument 'features the idea that parties have electoral ambitions in order to implement policies favouring their core constituencies'. In other words, parties are policy-seeking. Historically, social democratic parties organized to fight for the rights of workers and other low-income groups, while conservative parties were established to secure the economic interests of business owners and high-income groups. As a result, the two groups of parties developed different ideologies and views on social and macroeconomic issues.

With regard to fiscal policy, the expectation of partisan differences stems from the idea of a long-term trade-off between unemployment and inflation providing a 'stable menu of policy choices' for governments. Hibbs (1977: 1474, 1992: 363) argues that the Left runs expansionary budgets to reduce the unemployment risks of labour, while the Right engages in fiscal discipline to accommodate the inflationary concerns of capital owners. Others simply argue that left-wing governments are associated with higher budget deficits because of their constituency's general interest in higher levels of government spending and public provision of goods (Blais *et al.* 1993; Cowart 1978; Iversen and Wren 1998). From a politics matters perspective, it is therefore clear that austerity policies (i.e., cuts in spending to balance the budget) should be considered a right-wing phenomenon and not a policy expected under left-wing incumbency. Empirically, support of this partisan hypothesis is mixed. Some empirical tests do find the expected partisan differences in fiscal policy (Amable and Azizi 2011; Mink and de Haan 2006), while other studies are more sceptical of the direct relationship between the colour of government and the budget balance (Cusack 1999; Raess and Pontusson 2015).

The argument

This article extends on the classic partisan theory by incorporating the role of parties' handling reputations into fiscal policy-making. My argument diverges from traditional partisan theory in two ways. First, partisan scholars assume

that politics unfolds in a Downsian political space (Downs 1957). This implies that voters and parties can be placed along a single left-right dimension that is fixed, ordered, and referred to by all political actors (Clarke *et al.* 2009). As such, a strong voter-party alignment should make citizens vote primarily on the basis of their position in the income distribution. Low-income groups should vote for left-wing parties and high-income groups should support right-wing parties. While this conceptualization is very useful analytically, restricting politics to a one-dimensional class struggle may result in oversimplification. In particular, a sizable group of dealigned, swing voters – typically placed in the middle of the political spectrum – have emerged in nearly all Western countries (Dalton 2008; Dalton *et al.* 1984; Dalton and Wattemberg 2000; Rohrschneider and Whitefield 2012). These voters behave markedly different than core voters aligned along traditional socio-structural cleavages. Their voting behaviour is much more volatile (Mair 2002); they do not identify with a particular party (Dalton 2008; Thomassen 2005); and their party choice is strongly influenced by the political agenda and parties' issue reputations or issue ownerships (e.g., Bélanger and Meguid 2008; Clarke *et al.* 2004, 2009; van der Brug 2004; Wright 2012). The concept of issue ownership implies that parties' abilities to handle problems are perceived differently (Budge and Farlie 1983; Petrocik 1996). When a given issue turns salient on the agenda, swing voters will tend to favour the party with the best reputation on that issue. This means that parties can lose a substantial amount of electoral support if attention is drawn to an issue where they lack issue ownership. Today's voter-party linkage therefore both has a *class component* that drives traditional core voters and a *competence component* that relates to the electoral behaviour of swing voters. While traditional partisan theory only incorporates the former, the theoretical framework presented here attempts to take into account both components.

Second, I move beyond partisan scholars' claims that policy interests are the only aspiration of political parties. Parties are not merely policy-seeking, but have several motives (Müller and Strøm 1999). Particularly, political parties are also motivated by winning elections (Downs 1957; Hotelling 1929). I assume that parties cater to both office and policy concerns. The two motives are not necessarily opposites and can indeed lead to the same behaviour. For instance, holding office will likely increase the chances of influencing policy, and mobilizing core voters by promising to deliver on a particular policy can be a necessary condition for getting into office in the first place. However, in many cases, the two motives do conflict and here politicians are forced to choose between one of the two. In fact, dilemmas between policy and office concerns are often at the core of governmental decisions and should therefore be actively incorporated in theories of public policy-making.

Accepting these two revisions of partisan assumptions, it becomes clear that holding office not only provides parties with an opportunity to satisfy

their core constituency. Executive power also implies a responsibility to solve a vast amount of problems in society. If governments fail to live up to this responsibility, there is a risk that they will come around as incompetent and lose the possibility of getting reelected. This is particularly the case if governing parties lack issue ownership. While parties that already have a good reputation face a much lower risk of losing swing voters, parties without issue ownership are much more vulnerable to criticism of their problem-solving capacity.

With regard to fiscal policy, asymmetries in handling reputations also exist. Several studies show that right-wing parties are issue owners of austerity: in voters' minds, the Right is better at reducing budget deficits and controlling government spending than the Left (Bélanger and Meguid 2008; Petrocik 1996; Petrocik *et al.* 2003; Seeberg 2016; Walgrave *et al.* 2012). The causes of this asymmetric reputation are complex, but issue ownership, at least in part, reflects the attention a party historically has paid to the issue (Egan 2013; Stubager and Slothuus 2013). Put differently, voters trust right-wing parties more to solve a problem of budget overspending because, ideologically and historically, they have prioritized solving this problem. In contrast, the Left has prioritized other issues at the expense of austerity and thus are more likely to be labelled as 'fiscally irresponsible' and as 'luxury parties' (Kayser 2009; Stevenson 2001).

Traditional issue ownership literature underscores that it can be extremely hard for parties to change existing patterns of issue ownerships and reduce electoral exposure from a bad handling reputation. For instance, Budge and Farlie (1983: 289–90) write about 'issues that are always, on balance, favourable to the left' or 'the bourgeois parties'. Today, the stability of issue ownerships is more disputed, as some studies confirm the initial idea of very stable issue ownership patterns (Walgrave *et al.* 2014), while others demonstrate more volatile patterns (Bélanger 2003). As far as right-wing ownership of austerity, existing data give us rather compelling evidence of stability. Based on the work of Seeberg (2016), Figure 1 shows the distribution of answers from 20 national election studies across eight countries in which voters were asked what party they think is best at handling budget problems (see Online Appendix 5 for further data description). In 17 of the 20 studies, the majority of voters trust right-wing parties most. This is illustrated by the left-skewed distribution of the answers in Figure 1. Clearly, left-wing governments have a very hard time convincing voters of their ability to restrain budgets.

Governments are not able to work on and potentially improve their reputation on all problems and issues. As pointed out by agenda-setting research (Baumgartner and Jones 1993; Schattschneider 1960), a mismatch exists between the 'limited' capacity of the political system and the 'endless' amount of problems in society. Thus, executives will have to prioritize. Green-Pedersen and Mortensen (2010) show that governments faced with

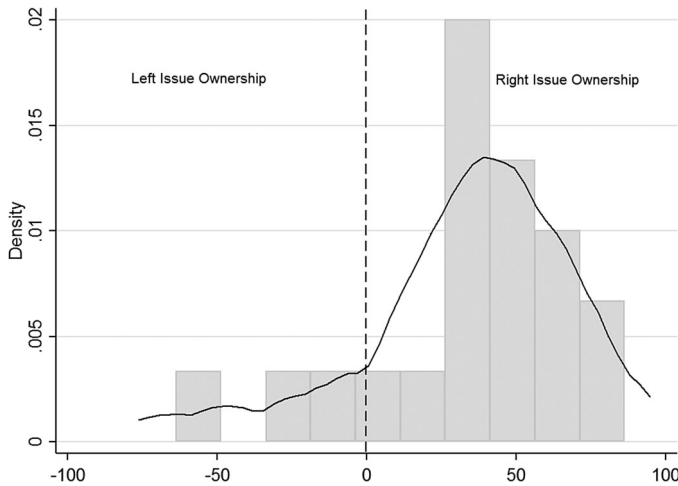


Figure 1. Issue ownership of austerity.

Notes: The histogram and the black line illustrate the distribution of the austerity issue ownership between left-wing and right-wing parties. Issue ownership is calculated as the approval of right-wing parties subtracted from the approval of left-wing parties. Positive values indicate a right-wing issue ownership and vice versa. 1982–2012. $N=20$, $n=8$. See Online Appendix 5 for further data description.

this capacity constraint tend to focus on those problems that are salient on the party-political agenda. They do so because of the simple fact that it is much more dangerous to appear irresponsible or passive on highly politicized issues than on depoliticized issues. If an issue is not on the agenda, governments can more easily avoid getting blamed and do not have any particular incentive to change behaviour. In cases where all political attention is drawn to the issue, a lack of response, on the other hand, can have devastating electoral consequences – in particular when governing parties already have a bad reputation on that issue. Governments' blame avoidance manoeuvres and competence strategies are therefore closely linked to issue ownerships and agenda dynamics.

Building on this, the Left's lacking issue ownership of austerity should make left-wing governments exceptionally exposed when the need for budget austerity is attended to in the political arena. As attention to fiscal austerity increases, swing voters' performance assessments will increasingly centre on the government's ability to handle the budgets, and left-wing parties will start to appear weak. In this situation, left-wing incumbents face a trade-off between partisan interests in high spending levels and re-election motives to signal fiscal discipline and avoid the potential loss of swing voters. At some point, the potential electoral costs of swing voters' mistrust will exceed the ambition to satisfy core constituents, and left-wing governments will react. I hold that this reaction implies cutting spending and reducing budget deficits as much or even more than a right-wing government

would have done. That is, left-wing incumbents should either adopt the policy position of their right-wing competitors (Downs 1957) or compensate by being even more austere than the Right (Jensen 2010). By doing so, left-wing governments signal fiscal responsibility and hope to minimize the potential vote loss that a salient austerity agenda generates.

This positional manoeuvre should not be interpreted as an offensive or smart move to capture new voters. On the contrary, the strategy is defensive in nature. Simply continuing partisan spending under heavy debates about austerity with a 'luxury image' among voters would be politically lethal. Left-wing governments are forced to react by changing their fiscal policy position. This illustrates how governments' realm of policy options is constrained by the party-systemic agenda.

A key feature of my argument is that left-wing governments are pressured by changes in the political agenda, which is not necessarily the same as actual economic developments. Of course, the two things are not completely unrelated, but the correlation is actually surprisingly hard to find. Figure 2 illustrates the relationship between a set of economic variables and the salience of austerity (see operationalization below). The scatterplots do not reveal any obvious correlation.² Even when an additive index of the three economic variables is constructed (the bottom right corner of Figure 2),

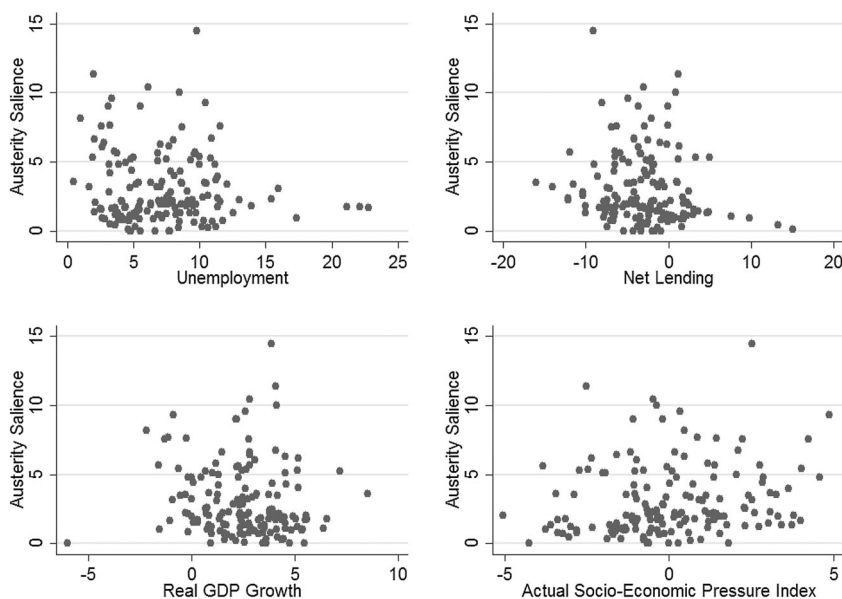


Figure 2. Socio-economic pressure and austerity salience, 1980–2006.

Notes: The Socio-Economic Pressure Index is an additive index comprised of the three other variables (transformed to z-scores): the unemployment rate, net lending, and real GDP growth. All observations are election year observations. $n = 157$.

there appears to be a lot of variation in austerity salience that cannot be accounted for by the actual socioeconomic pressure. While it is not the ambition of this article to understand the determinants of an austerity agenda,³ I argue that attention to austerity is really what pressures left-wing parties.

Finally, the left-wing competence strategy involves improving the budget balance by cutting spending – not by raising taxes. First of all, increasing the tax burden of individuals and firms can be an impossible task in a globalized world. Furthermore, the nature of austerity itself refers to spending and not taxation. To be fiscally austere and prudent implies that you do not overspend and squander public resources. Thus, increasing taxation to signal fiscal austerity is not a viable strategy.

Methods

My argument is tested using a TSCS research design with data from 21 OECD countries⁴ from 1980 to 2006. This time period is chosen partly owing to data limitations, partly because several studies describe how social democratic parties suffered a tremendous loss of economic credibility with the oil crises of the 1970s. The latter implies that the argument should be most relevant from the 1980s and onwards. I stop my quest at 2006 in order to ensure that the recent financial crisis doesn't bias the results.

The dependent variable of the study, fiscal policy, can be measured in several ways. The most commonly used budget indicators are net lending, cyclically adjusted net lending, and the primary budget balance (Mink and de Haan 2006: 196). Net lending is defined as the general government's receipts less its outlays. Hence, a positive government net lending indicates a budget surplus, while decreasing net lending reflects deteriorating public finances. Many scholars analysing budget policies use a cyclically adjusted version that filters budget data for variation caused by the macroeconomic environment (e.g. Mulas-Granados 2006). Initially, this seems appealing. Employing a cyclically adjusted net lending measure can isolate the discretionary effects of fiscal policy, and this gives us a more precise indicator of politicians' budget decisions. However, the measure has several pitfalls. Most importantly, the calculation methods vary significantly across countries, which questions comparability (Wagschal and Wenzelburger 2008: 310). Additionally, research shows that the revision period of cyclically adjusted parameters after their initial publication is rather long. Relying on these types of indicators in analyses of more recent periods is therefore not optimal (De Haan *et al.* 2004). When measuring fiscal policy, however, it is possible to account for public interest payments that are not directly controlled by the government but can affect the budget balance substantially. Net lending adjusted for the government's debt-servicing costs is called the primary budget balance.

Based on the above, I measure the budget balance as the general government net lending as percentage of GDP with data provided by OECD (2013). To account for government interest payments, I follow the classic fiscal policy model introduced by Roubini *et al.* (1989; see also Bayar and Smeets 2009; Boix 2000) and include an explanatory variable that measures the government's costs of servicing debt (see Online Appendix 2 for precise calculation method). Besides a budget balance regression, I run two additional regressions with the expenditure and revenue components respectively, to see whether changes in the budget balance are expenditure and/or revenue driven.

The analysis has two key independent variables: left-wing governments and the salience of austerity on the political agenda. To measure left-wing governments, I adhere to standard practice in the literature and use the share of cabinet seats held by members of left-wing parties.⁵ The data are drawn from the Comparative Political Data Set I (Armingeon *et al.* 2013). The salience of austerity on the political agenda is measured with data from the Comparative Manifesto Project (CMP) (Volkens *et al.* 2013). The CMP dataset contains codings of the content of party manifestos for elections taking place since 1920 and covers over 50 countries. This extensive coverage is what makes CMP data unique and ideal for this study. Party manifesto data are used to measure many different phenomena, but were originally collected for the purpose of measuring the salience of different issues for different parties (Green-Pedersen 2007: 611). It therefore seems reasonable to apply as a proxy for the salience of an issue on the party-systemic agenda, which has also already been done by several other authors (e.g., Armingeon and Giger 2008).

The CMP data are coded into 56 issue categories, 16 of which concern the economy. For instance, the CMP measures parties' devotion to issues such as nationalization, Keynesian demand management, corporatism, free enterprise and market regulation. To measure the salience of austerity, I use the category 'Economic orthodoxy', which is the only category in the CMP that concerns fiscal prudence. 'Economic orthodoxy' is defined as the 'need for traditional economic orthodoxy, e.g. reduction of budget deficits, retrenchment in crisis, thrift and savings; support for traditional economic institutions such as stock market and banking system, and support for strong currency' (Volkens *et al.* [2013]; for similar operationalization, see De Simone and Sapio [2013]). It seems reasonable to hold that this definition captures the relevant aspects of an austerity agenda. The unit in the CMP dataset is standardized sentences called quasi-sentences. Austerity salience is thus measured as the average⁶ percentage of quasi-sentences devoted to 'economic orthodoxy' in parties' election manifestos, ranging from 0 to 14.5. This approach is chosen in order to capture the systemic nature of the party-political agenda.

Sensitivity analyses show that alternative operationalizations are highly correlated and produce similar conclusions (see Online Appendix 4).

The CMP dataset only contains election-year observations. To avoid excluding a large number of cases, I linearly interpolate the austerity salience data to missing years between elections⁷. Online Appendix 1 goes through the resulting austerity salience indicator in detail. In addition to the dependent and key independent variables, I include a battery of controls. Online Appendix 2 contains a further description of the control variables and summary statistics.

Turning to statistical technique, I test my argument by estimating a series of error correction models (ECMs). One of the advantages of ECMs is that it allows analysts to distinguish short-run effects from long-run effects⁸ (Beck and Katz 2011; De Boef and Keele 2008). This is particularly attractive here, since partisan effects on policy could very well be delayed for various reasons. In ECMs, the dependent variable is first-differenced, and a lagged dependent variable is included in the right-hand side of the model. The independent variables are included both as first-differenced and as lagged. The short-run effect of a given independent variable is then captured by the coefficient of the first-differenced term, while the long-run effect can be derived by dividing the coefficient of the lagged independent variable by the coefficient of the lagged dependent variable.

As described above, I expect the level of austerity salience to interact with the partisan variable. Following others with similar theoretical outlines (e.g., Morgan and Kelly 2013), I thus interact the lagged austerity level with both the first-differenced and lagged level values of the partisan variable. Furthermore, a set of country dummies are included in the models to control for country-specific effects. Owing to the existence of heteroskedasticity and autocorrelation in the error terms, the ordinary least square (OLS) regressions are estimated with an autoregressive AR1-term and panel-corrected standard errors (Beck and Katz 1995, 2011).

Findings

Table 1 displays the findings from the regression analyses (see Online Appendix 3 for full regression models). I start out by estimating a baseline model without the austerity salience variable (Model I). At first glance, the baseline model shows, at best, mixed evidence of a partisan effect. Most importantly, we see that the lagged left cabinet share variable is insignificant. This implies that the long-run effect of left-wing governments on the budget balance is statistically indistinguishable from zero. It is, however, possible to detect a significant short-run effect: the estimation indicates that a shift toward a more leftist government significantly improves the budget balance in the short run. Estimations not shown here reveal that these budget improvements are achieved by raising taxes.⁹ Since the long-term effects are insignificant,

Table 1. Regression results.

	Model I Budget balance	Model II Budget balance	Model III Budget balance	Model IV Spending	Model V Revenue
Budget balance _{t-1}	-0.19*** (0.032)	-0.20*** (0.033)	-0.31*** (0.037)	—	—
Spending _{t-1}	—	—	—	-0.21*** (0.022)	—
Revenue _{t-1}	—	—	—	—	-0.18*** (0.035)
Δ Left cabinet	0.0090*** (0.0032)	0.0097** (0.0048)	0.012*** (0.0041)	0.00069 (0.003)	0.011*** (0.0026)
Left cabinet _{t-1}	-0.00085 (0.0024)	-0.0073** (0.0035)	-0.0083*** (0.0032)	0.0077*** (0.0019)	-0.00079 (0.0022)
Δ Austerity salience	—	-0.18** (0.088)	-0.15* (0.092)	0.13** (0.059)	-0.009 (0.071)
Austerity salience _{t-1}	—	-0.10* (0.058)	-0.10* (0.053)	0.094*** (0.031)	0.0034 (0.039)
Δ Left cab. X austerity sal. _{t-1}	—	-0.0002 (0.0012)	-0.00099 (0.001)	-0.0015** (0.00059)	-0.0018** (0.00092)
Left cab. _{t-1} X austerity sal. _{t-1}	—	0.0023*** (0.00086)	0.0025*** (0.00083)	-0.0024*** (0.00041)	0.00017 (0.00069)
Δ Debt serving costs	-0.00041 (0.00078)	-0.00053 (0.00077)	-0.00034 (0.0007)	0.000065 (0.00051)	0.00014 (0.00074)
Debt serving costs _{t-1}	0.00098 (0.001)	0.00084 (0.001)	0.0018* (0.001)	-0.0020** (0.00078)	0.00041 (0.0011)
Δ Unemployment	-0.34*** (0.093)	-0.32*** (0.095)	-0.055 (0.13)	-0.012 (0.081)	-0.08 (0.11)
Unemployment _{t-1}	-0.061* (0.034)	-0.076** (0.035)	-0.14** (0.058)	-0.051 (0.036)	-0.12*** (0.043)
Δ Real GDP growth	0.43*** (0.064)	0.43*** (0.061)	0.41*** (0.063)	-0.48*** (0.039)	-0.056 (0.056)
Real GDP growth _{t-1}	0.43*** (0.074)	0.43*** (0.073)	0.49*** (0.078)	-0.50*** (0.053)	-0.034 (0.072)
Constant	-0.96** (0.39)	-0.55 (0.39)	1.05 (4.67)	1.69 (2.68)	0.47 (4.67)
Fixed effects	Yes	Yes	Yes	Yes	Yes
Additional controls	No	No	Yes	Yes	Yes
No. of observations	413	413	413	413	413
R2	0.341	0.358	0.435	0.564	0.233

Notes: Dependent variables are first-differenced. Additional control variables and country dummies are not shown to facilitate presentation (see Online Appendix 3). Panel-corrected standard errors in parentheses. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

the immediate partisan impact is cancelled out in the long run and is therefore only temporary. While this might not be a direct falsification of the partisan hypothesis, it is fair to say that the baseline model is definitely not a robust confirmation of partisan theory.

I expect left-wing governments to engage in the competence strategy when austerity concerns turn salient on the political agenda. This is tested by introducing austerity salience to the analysis. The models with the salience variable and the interaction term included (Models II–V) show substantially different results than Model I. To begin with, Model II indicates the existence

of a significant modifying effect of the austerity salience level on the long-term relationship between the left cabinet share and the budget balance. This can initially be seen from the fact that the lagged interaction term between left cabinet share and austerity salience is significant at a 1 per cent level. The coefficient of the interaction term is positive, implying that as the salience of the austerity issue increases, the marginal effect of a left-wing government on the budget balance becomes more positive (or less negative). Model III indicates that these results hold when an additional set of controls are added to the estimation.

As pointed out by Brambor *et al.* (2006), proper interpretation of interaction models involves illustrating that the conditional effect of the key independent variable is significant at substantially meaningful levels of the moderating variable, given the theoretical expectations. Following this advice, Figure 3 contains a plot depicting the long-term partisan effect on the budget balance at different levels of austerity salience. The figure shows that when the salience is below 1.5 per cent, left-wing parties in government have a long-run negative effect on the budget balance. This is exactly what traditional partisan theory predicts: left-wing governments satisfy their core constituency, which leads to budget deficits. However, the plot also illustrates that as the austerity salience intensifies beyond the 1.5 per cent threshold, the long-run effect turns insignificant until around 5 per cent where the effect again becomes significant but now with the opposite sign. The latter implies that under very intense debates about austerity, left-wing

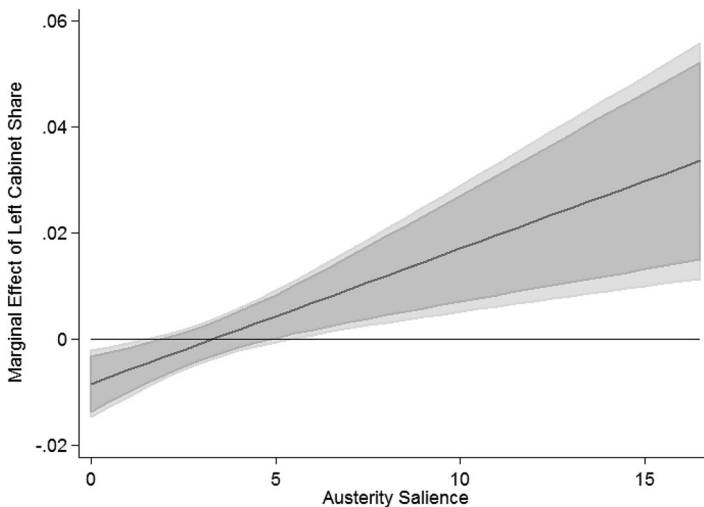


Figure 3. The marginal long-run effect of left-wing governments on the budget balance.

Notes: The grey areas represent the 90% and 95% confidence intervals. Calculations are based on Model III in Table 1.

governments actually start being more austere than the Right; even though these high-salience scenarios do not appear that often in data (see Online Appendix 1 for details).

Model IV and Model V indicate that the improvement in the budget balance found in Model III is caused by a reduction in government spending. This is also evident from the plots in Figure 4 that illustrates the partisan effect on spending and revenue across levels of austerity salience. In the revenue model on the right side, it is not possible to detect a significant long-run effect of partisanship at any level of austerity salience. In contrast, the plot on the left side illustrates that the marginal effect of left-wing governments on spending goes from positive to negative as the salience level rises. Put differently, estimations indicate that left-wing governments' responses to increases in austerity salience are expenditure-driven and not revenue-driven.

The estimated results are thus in line with the theoretical proposition outlined above. When the political actors concentrate on issues other than the state of the public finances, leftist governments can rather easily follow the interests of their core constituency by loosening the budgetary control. Under low austerity salience, left-wing governments are associated with substantial increases in public spending and higher budget deficits. However, as focus on austerity intensifies, left-wing governing parties' bad fiscal reputation

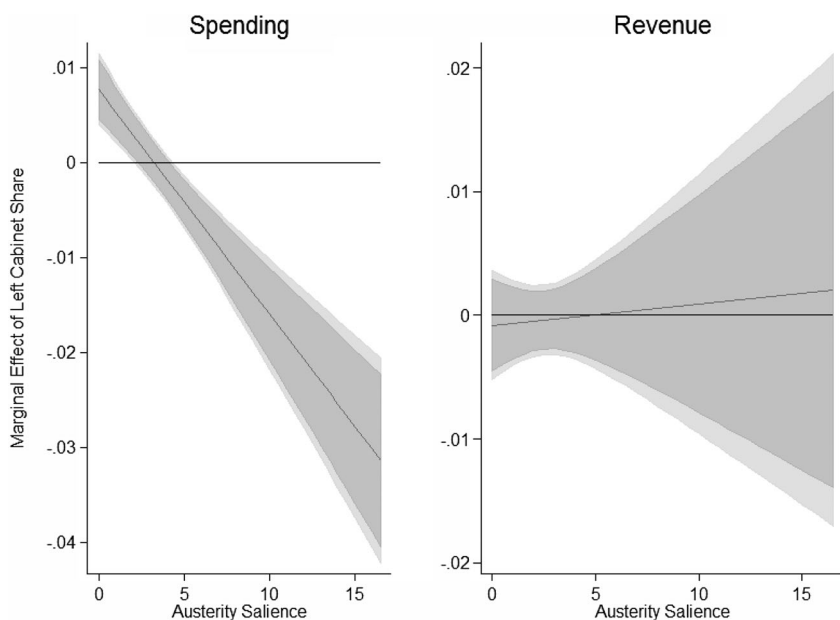


Figure 4. The marginal long-run effect of left governments on revenue and spending.

Notes: The grey areas represent the 90% and 95% confidence intervals. Calculations are based on Model IV and Model V in Table 1

complicates their partisan budget strategy. With attention to the budgets, excessive spending will easily result in electoral punishment for the Left. To avoid this, left-wing governments engage in a competence strategy. They become as austere as or even more austere than right-wing governments. This implies substantial cuts in spending to balance the budgets – a scenario that can be observed from both [Figure 3](#) and [Figure 4](#).

The estimation of time-series cross-sectional data raises several concerns about robustness and sensitivity. Several precautions have already been taken to ensure that the results are robust and valid. However, to further check the robustness of the findings, I put the above results to an additional set of tests. First, one concern might be whether the significant moderating effect of austerity salience is a result of measurement choice. As argued above, I am interested in capturing the party-systemic agenda, and here the indicator that comes closest to this theoretical concept is the applied weighted average of all parties' issue emphasis. However, preferably, the results should be robust to smaller changes in the indicator. In Online Appendix 4, I therefore rerun the estimations using four alternative measures of austerity salience: a measure that adds the category 'Free Market Economy' to the indicator in order to ensure that we fully capture the concept of austerity; an unweighted measure of austerity salience to test whether the weighting influences the findings; a measure that carries forward salience scores from last election instead of interpolation; and, finally, an indicator that excludes left-wing parties in order to make sure that the results are not a reflection of left-wing governments delivering what they have promised to do before the election (Budge and Hofferbert 1990). In all re-estimations, the conditional effect of the austerity salience has the expected direction and remains significant (see Online Appendix 4). It should be noted, however, that the results are a little weaker when left-wing parties' emphasis are removed from the austerity measure. Here, the partisan effect is mainly significant at a 10 per cent significance level for most levels of austerity salience and only significant at the 5 per cent level for more extreme salience values (see Online Appendix 4 for more details). For all other re-estimations, the partisan effect remains significant at a 5 per cent level and reverses at similar salience values. Overall, the estimates are therefore fairly robust to changes in the austerity indicator.

In addition to these robustness checks of my key independent variable, Online Appendices 4 and 6 also conduct sensitivity analyses that control for time-specific effects, social democratic positional changes over time, and an alternative interest payment adjustment of the dependent variable. While the main conclusions are similar to those presented here, the tests indicate that the left-wing response to austerity salience was strongest in the first part of the time period; that is, between 1980 and 1992. One explanation for this result could be that governments in general have become more constrained, as globalization and internationalization have intensified (e.g., Boix

2000). Manipulation with economic policy in order to satisfy electoral interests might simply be less feasible for governments today than it used to be.

Conclusion

The results in the analysis generally confirm the argument put forward in the article. Based on data from 21 countries between 1980 and 2006, I find that increases in concerns about austerity have a substantial moderating effect on the long-term relationship between left-wing governments and fiscal policy. This indicates that the Left is only associated with budget deficits and high spending when they are not forced to compensate for their perceived lack of fiscal skills as a response to increased attention to austerity in the political system.

Finding evidence of a social democratic competence strategy naturally begs the question: will it actually work? Or put differently, will implementing austerity measures improve left-wing parties' fiscal reputation and secure electoral support in the future? As illustrated in [Figure 1](#), the asymmetric fiscal reputation appears to be quite stable. From this perspective, the chances are not good for the Left. Despite the cuts in spending and an improved budget balance, it is likely that swing voters will not change their perception of social democrats' ability to be austere. On the other hand, nothing prevents left-wing core voters to abstain or vote for other more radical left-wing parties, when social democratic governments give up partisan interests and turn to austerity measures. In this way, increasing attention to austerity is likely a lose–lose situation for the Left. In the aftermath of the euro crisis, austerity has topped the political agendas in many European countries. At the same time, voter support for the social democratic parties has continuously fallen ([Arndt 2013](#); [Karreth et al. 2013](#)). The bad fiscal reputation of the Left and its failed attempts to overcome it could be one explanation for this drop.

Another question that the empirical analysis raises is how the Right behaves when austerity turns salient in the political arena. Put frankly, could we simply turn the argument presented here upside-down? That is, the Right slacks on fiscal discipline when austerity concerns increase. I would argue that this scenario is less plausible. The reason relates to the negativity bias in voter assessments: governments more often get blamed from things they cannot solve than they get credit for issues to which they actually manage to find durable solutions. In the context of fiscal austerity, it is therefore more likely that left-wing governments react to an austerity agenda in order to avoid getting blamed for their overspending than the opposite case, where right-wing governments respond to an issue that already helps them. This does not mean that only left-wing governments react to agenda shifts. Other work within the public policy literature have found that the Right lacks issue ownership on other issues and therefore is

constrained in a similar way within these policy areas (Jensen and Seeberg 2015; see also Arndt 2014). One potential route of future research could be to investigate how reputational dynamics influence policy-making across different issues and whether reputations matter more in some policy fields than others.

The findings also highlight that scholars should more actively incorporate the political agenda into the analysis of public policy. As the issue ownership literature underscores, each issue has its own political dynamic which is activated through political attention. Agenda shifts can rapidly restructure the power relationships between political parties and provoke unexpected changes. Many existing explanations of parties' positioning do not capture these aspects of politics. For instance, Adams *et al.* (2009) conclude that left-wing parties in general are less responsive to public opinion and economic developments. However, when agenda dynamics are taken into account, we actually find that the opposite is true. As the empirical analyses showed, left-wing governments respond forcefully in terms of policy when attention is drawn to unfavourable issues. This also indicates that social democrats do not seem to be particularly constrained by their core constituency, but are in fact surprisingly willing to sacrifice partisan interests in order to please swing voters and thereby increase the chances of staying in power. This reaction is only captured empirically when the agenda is included in the analytical setup.

Notes

1. 'Left-wing' and 'social democratic' will be used interchangeably.
2. Bivariate correlations between austerity salience and the economic variables are: -0.08 (unemployment); -0.13 (net lending); -0.09 (real GDP growth); and 0.18 (socioeconomic pressure index).
3. Agenda-setting scholars in general find that the political agenda is the outcome of a complex process with many different determinants involved. De Simone and Sapio (2013) provide some evidence of a similar tendency with regard to the issue of austerity.
4. Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Iceland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the United States.
5. The results can also be reproduced using a dummy variable with a value of 1 for left-wing governments and otherwise 0.
6. That is, the average of all parties present in the CMP dataset at each national election. Furthermore, the average is weighted by the parties' vote shares. A 'weighted average' approach has two advantages: first, it takes into account that larger parties typically receive more attention than smaller ones; second, it ensures that the number of parties does not bias the measurement of issue salience, which is a general problem with an additive approach.
7. Online Appendix 4 illustrates that results do not change if salience levels are kept constant (carried forward) in between the elections.

8. Fischer unit-root tests with one-year lags reveal no evidence of unit root problems for the dependent variables and the key independent variables.
9. Available upon request from the author.

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