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Housing Bubbles and
Support for Incumbents

Frederik G. Hjorth   Martin V. Larsen

Department of Political Science
University of Copenhagen

47th annual meeting of the DPSA
October 30th 2015

Outline

Key economic feature of post-industrial societies: mass home ownership.

- main form of capital ordinary people have.
- key part of one's control over one's immediate context.
- often the focus of political rhetoric.

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- main form of capital ordinary people have.
- key part of one's control over one's immediate context.
- often the focus of political rhetoric.

⇝ but: relatively little research on how home ownership shapes political behavior.

Ansell (2014): house price appreciation reduces preferences for social insurance.
⤳ see also Di Tella, Galiani and Schargrodsky (2007).

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Here: *local house prices* and *incumbent government support*.

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Feeds into litrature on effect of local economic conditions *vis-à-vis* personal or national.

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These data constraints potentially make for unreliable effect estimates.
⤳ which is in fact what we usually see.

The data and methods used in this paper try to break these usual data constraints.

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We do so by focusing on the Danish case, for which we have zip-code lvl population based measures of house prices over time.

Caveat: We cant discern the exact mechanism is. Could be ego-, socio- or geotropic.
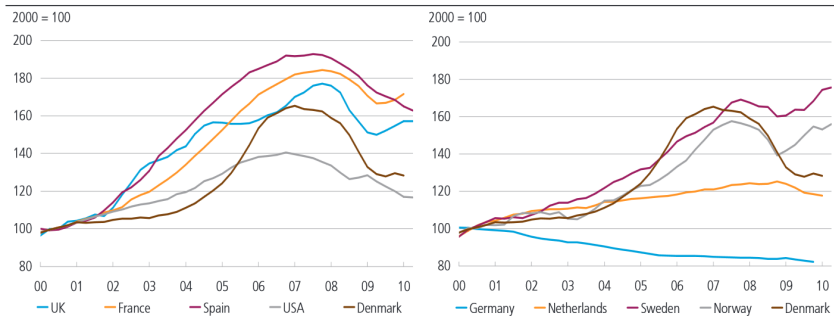⤳ We focus on establishing an effect.

Outline

In international comparison, DK's housing bubble exceptionally volatile:

REAL HOUSE PRICES IN SELECTED OECD COUNTRIES   Chart 4
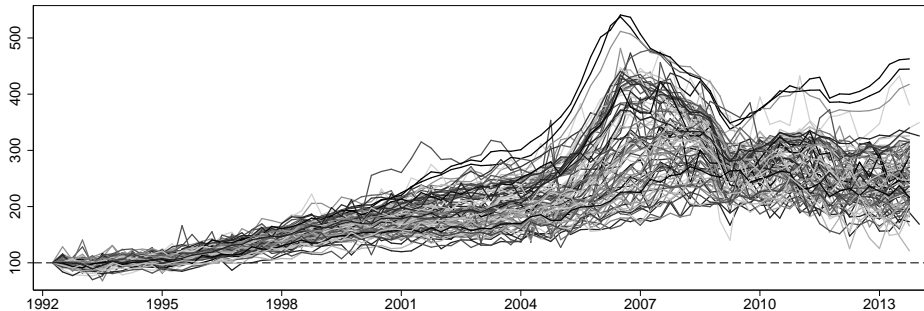

Note: Real house prices: nominal house prices deflated by the national accounts deflator for private consumption.
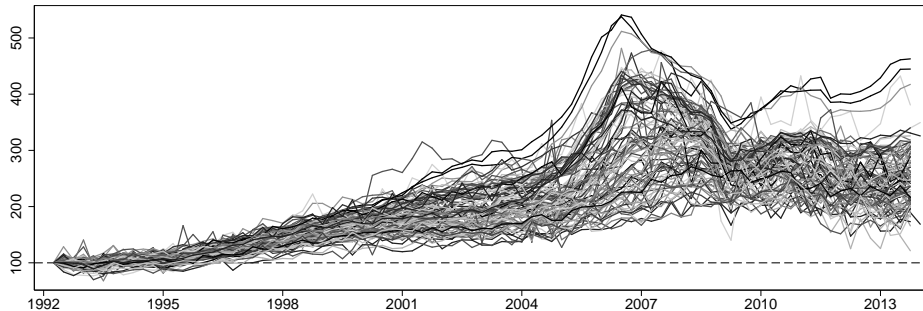Source: OECD House Price Database.

However, still great variation within DK (across municipalities below).

House prices in Denmark
(1992 is index 100)

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House prices in Denmark
(1992 is index 100)

Our focus is on parliamentary elections in 2005, '07, '11 and '15.

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⇝ using this database we can create a balanced panel of precincts across elections.

PEDA also gives info on: avg. income, avg. wealth, pct. working and pct. on benefits.
⇝ at the district level, only measured in 2011!

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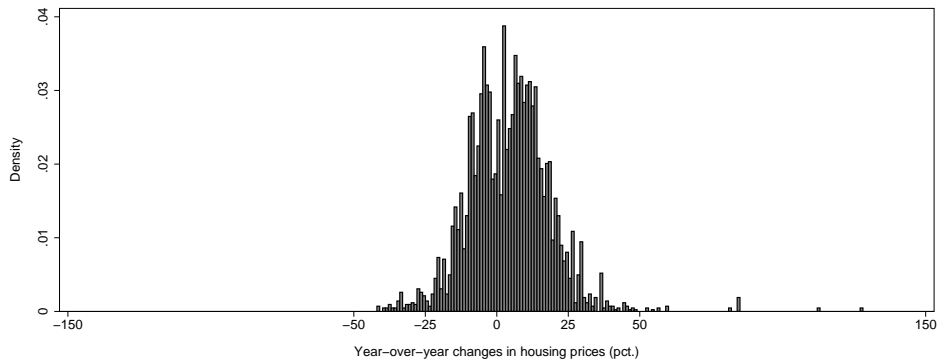Data is from the Danish Mortgage federation (Realkreditfordeling).
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We link precincts to zip-codes by identifying the zip code of the precinct's polling place.

$\mu = 0.04 \quad \sigma = 0.14$

Outline

Table 1: Estimated effects of house prices on electoral support for governing parties.

	(1)	(2)	(3)	(4)	(5)
Δ housing price	0.10^{**}	0.12^{**}	0.05^{**}	0.05^{**}	0.01^{*}
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Precinct FE		✓	✓	✓	✓
Year FE			✓	✓	✓
Year FE * Structural factors				✓	✓
Year FE * Municipality FE					✓
Observations	4192	4192	4192	4171	4171
RMSE	8.40	7.16	5.71	4.77	2.84

Standard errors in parentheses
* $p < 0.05$, ** $p < 0.01$

Table 1: Estimated effects of house prices on electoral support for governing parties at t+1.

	(1)	(2)	(3)	(4)	(5)
Δ housing price	0.12**	0.14**	-0.02	-0.01	0.02
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Precinct FE		✓	✓	✓	✓
Year FE			✓	✓	✓
Year FE * Structural factors				✓	✓
Year FE * Municipality FE					✓
Observations	3225	3225	3225	3211	3211
RMSE	8.62	7.10	6.22	5.24	3.05

Standard errors in parentheses
* $p < 0.05$, ** $p < 0.01$

Table 1: Estimated effects of house prices on electoral support for governing parties at t-1.

	(1)	(2)	(3)	(4)	(5)
Δ housing price	-0.03**	-0.04**	0.07**	0.08**	-0.00
	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)
Precinct FE		✓	✓	✓	✓
Year FE			✓	✓	✓
Year FE * Structural factors				✓	✓
Year FE * Municipality FE					✓
Observations	4198	4198	4198	4175	4175
RMSE	8.80	7.50	6.46	5.04	3.13

Standard errors in parentheses
$^* p < 0.05$, $^{**} p < 0.01$

We examine two types of heterogeneity in this effect: negativity and volatility.

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The second is volatility in the precinct's house prices: "bubblyness".
⤳ mechanisms: priming and clarity of responsibility.
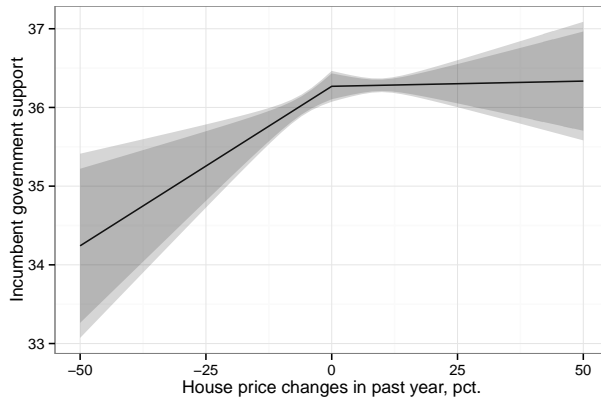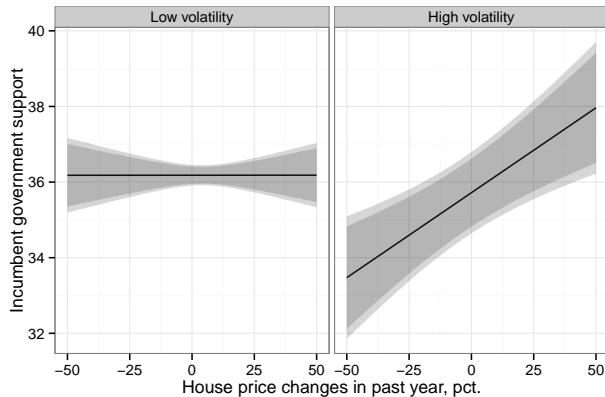
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5. Conclusion

We have shown evidence suggesting that house prices affect support for governing parties in Denmark.

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Evidence that the local economy, like the national, can influence incumbent support.

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Evidence that the local economy, like the national, can influence incumbent support.

Interesting implications for reelection-minded politicians.
⤳ they should care about house-prices, but they should try to avoid bubbles.

Ansell, Ben. 2014. "The political economy of ownership: Housing markets and the welfare state." *American Political Science Review* 108(02):383–402.

Bloom, Howard S and H Douglas Price. 1975. "Voter response to short-run economic conditions: The asymmetric effect of prosperity and recession." *American Political Science Review* 69(04):1240–1254.

Di Tella, Rafael, Sebastian Galiani and Ernesto Schargrodsky. 2007. "The formation of beliefs: evidence from the allocation of land titles to squatters." *The Quarterly Journal of Economics* pp. 209–241.

Healy, Andrew and Gabriel S Lenz. 2014. "Presidential Voting and the Local Economy.".