Housing Bubbles and Support for Governing Parties

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Abstract

The real estate bubble which jump-started the great recession is one of the largest economic shocks that modern western economies have experienced. However, we know little about whether and how this housing bubble, or house prices in general, shape voters electoral behavior. In this paper we zoom in on one country, Denmark, which had one of the largest housing bubbles in the world, and examine how this rapid expansion and contraction of real estate prices shaped support for governing parties across four parliamentary elections. To do this, we link detailed data on local house prices to election returns at the precinct level. Across a wide range of demanding specifications we find that the when house prices increase governing parties get a higher vote share. Further, this relationship seems to be stronger in areas where house prices are very volatile, and when the change in house prices decrease. The findings hold important implications for the role of local economic conditions in voting behavior and for the political incentives faced by policy-makers.

1 Introduction

This is a study about how local economy shapes. Specifically, house prices.

Several possible mechanisms: punish/reward, updating estimates of competence; updating estimates of national economy.

Contributions to extant research.

- Data: Small geographical units + multiple elections + population based data-
- House prices: Almost never done - although Lenz and Healy sort of similar.
- Empirical setting: Big bubble - Denmark (both pro and con - possibly least likely cf. general low economic voting)

These different factors make causal identification more likely in this study, than it has been before.

Add to this by also exploring negativity bias - especially important given the "bubblyness" of house prices. If voters respond uniformly or not this will present governments with widely different incentives.

2 Empirical Setting

Denmark's housing market.

Denmark's political situation. Peter Birch!

3 Data

How did we get data in IV and DV

4 Results

4.1 Causal identification

4.2 Evidence of a grievance asymmetry

4.3 Evidence of a bubblyness-effect

5 Discussion

How causally convincing is our results?

Is the negativity bias really a bias? Maybe... maybe not.

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

	(1)	(2)	(3)	(4)
Δ house price	0.10**	0.12**	0.05**	0.05**
	(0.01)	(0.01)	(0.01)	(0.01)
Polling Station FE		✓	✓	✓
Year FE			✓	✓
Year FE * Structural factors				✓
Observations	4196	4196	4196	4172
RMSE	8.41	7.16	5.71	4.77

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$

Table 2: Estimated effects of house prices on electoral support for governing parties at t+1.

	(1)	(2)	(3)	(4)
Δ house price	0.12**	0.14**	-0.02	-0.01
	(0.01)	(0.01)	(0.01)	(0.01)
Polling Station FE		✓	✓	✓
Year FE			✓	✓
Year FE * Structural factors				✓
Observations	3230	3230	3230	3212
RMSE	8.61	7.11	6.22	5.24

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$

Table 3: Estimated effects of house prices on electoral support for governing parties at t-1.

	(1)	(2)	(3)	(4)
Δ house price	-0.03**	-0.04**	0.07**	0.08**
	(0.01)	(0.01)	(0.01)	(0.01)
Polling Station FE		✓	✓	✓
Year FE			✓	✓
Year FE * Structural factors				✓
Observations	4200	4200	4200	4174
RMSE	8.80	7.50	6.46	5.04

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$

Table 4: Estimated effects of house prices on electoral support for governing parties across positive and negative changes.

	(1)	(2)	(3)	(4)
Δ house price (negative)	-0.08***	-0.11***	-0.07***	-0.10***
	(0.02)	(0.03)	(0.02)	(0.02)
Δ house price (positive)	0.12***	0.12***	0.04***	0.04**
	(0.01)	(0.02)	(0.01)	(0.01)
Polling Station FE		✓	✓	✓
Year FE			✓	✓
Year FE * Structural factors				✓
Test of no difference (p)	0.24	0.77	0.28	0.02
Observations	4196	4196	4196	4172
RMSE	8.41	7.17	5.71	4.76

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 5: Estimated effects of house prices on electoral support for governing parties across volatility.

	(1)	(2)	(3)	(4)
Δ house price	0.12**	0.12**	0.01	0.02
	(0.02)	(0.02)	(0.02)	(0.02)
Volatility	-7.01**	1.60	3.96	-4.21*
	(2.44)	(2.53)	(2.37)	(1.71)
Δ house price × Volatility	-0.06	-0.03	0.19**	0.16**
	(0.06)	(0.07)	(0.06)	(0.05)
Polling Station FE		✓	✓	✓
Year FE			✓	✓
Year FE * Structural factors				✓
Observations	4188	4188	4188	4164
RMSE	8.45	7.17	5.71	4.76

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$

Table 6: Estimated effects of house prices on electoral support for governing parties across volatility.

	(1)	(2)	(3)	(4)
Δ house price (positive)	0.15**	0.10**	0.01	0.03
	(0.03)	(0.04)	(0.03)	(0.02)
Δ house price (negative)	-0.05	-0.17**	0.02	0.02
	(0.07)	(0.06)	(0.05)	(0.05)
Volatility	-7.38*	-0.04	7.21**	-1.19
	(3.73)	(3.28)	(2.71)	(2.03)
Δ house price (positive) × Volatility	-0.10	0.07	0.06	0.04
	(0.12)	(0.13)	(0.09)	(0.07)
Δ house price (negative) × Volatility	0.01	0.25	-0.50*	-0.48**
	(0.28)	(0.25)	(0.21)	(0.17)
Polling Station FE		✓	✓	✓
Year FE			✓	✓
Year FE * Structural factors				✓
Observations	4188	4188	4188	4164
RMSE	8.46	7.17	5.70	4.76

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$

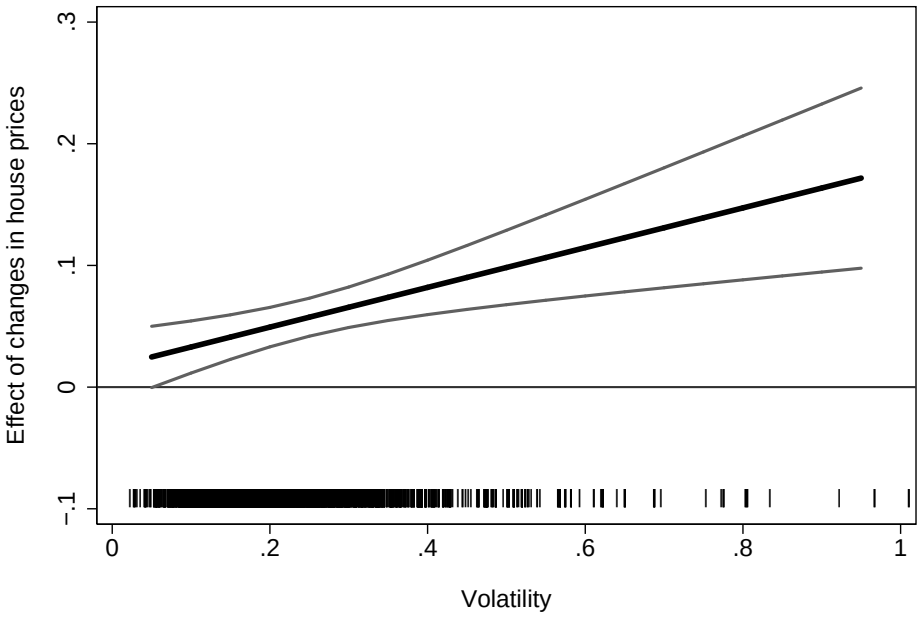

Figure 1: Marginal effect of Δhouse prices on incumbent support across levels of price volatility with 95 pct. Confidence Intervals. Rug plot signifies distribution of observations across the volatility variable.

Implications for policy makers.

Goodnight!