

# Housing Bubbles and Support for Governing Parties

Frederik Hjorth

Martin V. Larsen

October 16, 2015

DRAFT - PLEASE DO NOT QUOTE, CITE, OR CIRCULATE

## **Abstract**

When the real estate bubble burst in 2007 it had profound consequences for the state of the world economy. However, we know little about whether or how this housing bubble affected voting behavior. Studying the electoral consequences is important, because it helps us understand how voters react to economic shocks which affect their immediate environment and, in turn, the incentives reelection-minded politicians face when trying to deal with economic bubbles. In this paper, we zoom in on one country, Denmark, a country which had exceptionally volatile house prices, 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 change so does the governing parties vote share. Further, this relationship seems to be stronger in areas where house prices are very volatile, and when the change in house prices are negative.

# 1 Introduction

When the real-estate bubble burst in the late 2

IN doing this we follow the example

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 "bubbly-ness" 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?

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

	(1)	(2)	(3)	(4)
$\Delta$ house price	0.10** (0.01)	0.12** (0.01)	0.05** (0.01)	0.05** (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)
$\Delta$ house price	0.12** (0.01)	0.14** (0.01)	-0.02 (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)
$\Delta$ house price	-0.03** (0.01)	-0.04** (0.01)	0.07** (0.01)	0.08** (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)
$\Delta$ house price (negative)	-0.08*** (0.02)	-0.11*** (0.03)	-0.07*** (0.02)	-0.10*** (0.02)
$\Delta$ house price (positive)	0.12*** (0.01)	0.12*** (0.02)	0.04*** (0.01)	0.04** (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)
$\Delta$ house price	0.12** (0.02)	0.12** (0.02)	0.01 (0.02)	0.02 (0.02)
Volatility	-7.01** (2.44)	1.60 (2.53)	3.96 (2.37)	-4.21* (1.71)
$\Delta$ house price $\times$ Volatility	-0.06 (0.06)	-0.03 (0.07)	0.19** (0.06)	0.16** (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

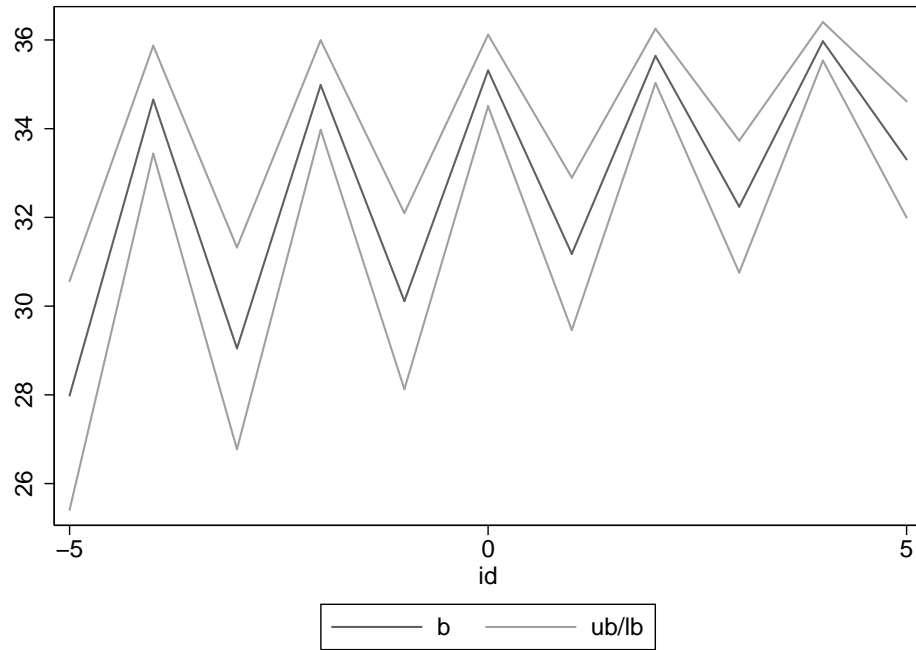
\*  $p < 0.05$ , \*\*  $p < 0.01$

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

	(1)	(2)	(3)	(4)
$\Delta$ house price (positive)	0.15** (0.03)	0.10** (0.04)	0.01 (0.03)	0.03 (0.02)
$\Delta$ house price (negative)	-0.05 (0.07)	-0.17** (0.06)	0.02 (0.05)	0.02 (0.05)
Volatility	-7.38* (3.73)	-0.04 (3.28)	7.21** (2.71)	-1.19 (2.03)
$\Delta$ house price (positive) $\times$ Volatility	-0.10 (0.12)	0.07 (0.13)	0.06 (0.09)	0.04 (0.07)
$\Delta$ house price (negative) $\times$ Volatility	0.01 (0.28)	0.25 (0.25)	-0.50* (0.21)	-0.48** (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  $\Delta$ house prices on incumbent support across levels of price volatility with 95 pct. Confidence Intervals. Rug plot signifies distribution of observations across the volatility variable.

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

Implications for policy makers.

Goodnight!