SHOCKS AND OSCILLATIONS: THE POLITICAL ECONOMY OF HUNGARY *

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While the presence of economic voting in the mature democracies stands well-established, the character, even the existence, of economic voting in new democracies has been questioned. (Anderson 1995; Duch and Stevenson 2008; Lewis-Beck and Paldam 2000; Lewis-Beck and Stegmaier 2000, 2007. 2008; Norpoth 1996). However, a recent comprehensive review of the relevant literature on these countries provides an answer: "Clearly, economic voting regularly presents itself in these transitional democracies. Evidence from the various studies, with but few exceptions, demonstrates statistically and substantively significant effects. In this respect, they function like established democracies" (Lewis-Beck and Stegmaier 2008, 320). Such a sanguine conclusion, reinforcing the scientific cannon of cross-national generalization, finds a challenge in the current economic climate. Given the crisis has a firmer grip in some of these more fragile polities, the public response might be different. Further, those differences would tend to reveal themselves dynamically, unfolding over time. But virtually none of the economic voting studies for Central and Eastern Europe, the region of primary interest here, is based on time-series data. Instead, they are cross-sectional, dividing themselves between aggregate and survey studies (Lewis-Beck and Stegmaier 2008, 312-317).

In contrast to mature democracies, then, vote or popularity equations, "V-P functions," as they have been called, are scarce (Nannestad and Paldam 1994). Vote functions are likely to remain in short supply, because so few elections have been held. The typical number in Central and Eastern European countries hovers around six, rendering the sample size simply too small for effective analysis. But this problem is potentially absent with popularity functions, and their repeated over time vote intention measures. When the public regularly experiences “trial-heat” elections, in monthly or quarterly contests where they are asked to express their ballot preferences, an adequate-sized sample can rapidly be accumulated. Such aggregate time series are especially useful for understanding the political dynamics of the economic crisis.

Of course, an obstacle here concerns the actual collection of such data. Few post-communist democracies have available extended popularity data of good quality. A noteworthy exception is Hungary, where the commercial polling firm of Szonda Ipsos reliably poses the following item: “If an election were held this Sunday, for which party would you vote?” Using these data, we are able to compose an unbroken monthly time series of support for the governing party, the Socialist MSZP, running from May 2002 (when it assumed government) to March 2009. Drawing on previous economic voting theory and research, as applied to Hungary, we explain the trajectory of government support, as driven by economic oscillations and political shocks. The evidence shows massive, and diverse, political economic effects. The economic crisis clearly drives the fortunes of the current Hungarian government.

CURRENT ECONOMIC AND POLITICAL CONDITIONS

There has long been concern about Hungary’s high deficits and extraordinarily high debt, presently at about 75 percent of the national GDP. The economic issue has plagued the MSZP for much of its current term. In September 2006 the party leadership admitted lying to the public about the state of the economy during the 2006 election campaign. In response, citizens took to the streets, rioting against the government for weeks. At the coming of April 2008, the Socialist's partner, the SZDSZ, left the ruling coalition over disagreement regarding the government's new economic plan. By late October 2008 Hungary received a financial bailout from the IMF, the World Bank and the EU, for a sum totaling twenty-five billion US dollars. (Hungary was the first EU country to receive IMF bailout money since the 1970s, when Britain was a recipient). In March 2009, Prime Minister Ferenc Gyurcsany declared he would resign, recommending a new PM who would have wider support for dealing with the economic crisis. A constructive vote on no-confidence was then held in mid-April, with Gordon Bajnai becoming PM, on the basis of backing from the MSZP and the SZDSZ. Taken together, these deep economic problems, of which the government has been well aware, would appear to make Hungary especially vulnerable politically.

ECONOMIC VOTING STUDIES IN HUNGARY

In Central and Eastern European studies on economic voting, Russia, Poland, and Hungary have received the most attention (Lewis-Beck and Stegmaier 2008, p. 312). Aggregate investigations (on the 1994, 1998, 2010 parliamentary elections) report the strong impact of rising unemployment on the vote (Fidrmuc 2000; Stegmaier and Lewis-Beck 2009). Individual-level, survey investigations (1994, 1997) demonstrate important effects on the incumbent vote from sociotropic retrospective and sociotropic prospective economic evaluations (Anderson, Lewis-Beck and Stegmaier 2003; Duch 2001). In particular, when the economic perceptions register national deterioration, the governing party is punished by the electorate. As Duch (2001, 906) concludes, "these results confirm the essence of economic voting theory." Here we explore such theories, as tested against our popularity series on government support.

DATA AND MEASURES

The dependent variable, vote intention for the MSZP, is measured as the percent support for the party among respondents who indicated support for a party.[1] The MSZP is the communist successor party in Hungary. It had a paltry showing in the first post-communist elections in 1990, winning just under 9% of the seats, but the party rapidly gained supporters during the painful years of the economic transition. Four years later, the party won 54% of the seats. The MSZP has been the dominant party on the left, heading majority government coalitions with the Independent Smallholders Party (1994-1998, 2002-2008) and, from April 2008 leading a minority government [For more on the Hungarian parliamentary system and elections, see Fitzmaurice (1995), Fowler (2003), Korkut (2007), Racz (2003) and Racz and Kukorelli (1995)] The polling firm, Szonda Ipsos has posed this vote intention question, on more or less a monthly basis, since 1991. Using these responses, we assembled a monthly series of MSZP support, from May 2002-March 2009 (N = 83).

Figure 1 reports the time series. One observes that, over this period of its governance, support has varied considerably, from highs in the 50s to lows in the 20s.

[1] The polling firm does not report results for the months in which parliamentary elections are held. Thus, to fill in the series, we used the percent that the MSZP received in the territorial proportional representation vote. This was done for April 2006. In constructing the lagged vote intention variable, the April 2002 election result was used as the first observation (May 2002 minus one month).

[FIGURE 1 ABOUT HERE]

The independent variables, which may account for this fluctuation, measure oscillations and shocks. With respect to the oscillations, objective and subjective monthly economic indicators were gathered: the unemployment rate (survey based ratio of the number of persons unemployed to the number of persons in the work force, OECD); monthly change in the consumer price index (CPI) (the average change in the prices of consumer goods and services purchased by households, base year = 2005, OECD); future economic expectations (percentage who think next 12 months will be better minus percentage who think it will be worse, OECD).[2]

With respect to the shocks, we specify a series of dummy variable measures: the 2006 riots (1 = violent protests of September and October 2006 over PM lies, 0 = otherwise); Iraq troop deployment (1 = August 2003 thru March 2005, 0 = otherwise); change to minority government status (1 = May and June 2008 when SZDSZ left the government, leaving MSZP to govern as a minority; 0 = otherwise); new Prime Minister appointed (1 = October and November 2004 when he took office, 0 = otherwise); IMF bailout (1 = October and November 2008, 0 = otherwise); negative campaign (1 = January through April 2006, 0 = otherwise).

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[2] OECD uses 5 reply options to the survey question about future economic expectations. For more details on the coding, see the Business Tendencies Survey handbook at: http://www.oecd.org/dataoecd/29/61/31837055.pdf

HYPOTHESES AND MODELS

The dependent variable measure at hand is vote intention, not vote. As such, it falls into the popularity function, rather than the vote function, tradition. Nevertheless, it is reassuring to know that this vote intention measure has shown itself to be highly predictive of the actual vote. [See the demonstration in Stegmaier and Lewis-Beck (2009), for the 1998 election).] In considering more generally popularity function models, vigorously tested in France, the United Kingdom, and the United States, one observes two waves of economic independent variables (Lewis-Beck and Stegmaier 2000, 184-188). The first concerns objective macroeconomic indicators, such as unemployment, inflation, or growth. [See, for example, Norpoth 1985] The second concerns subjective indicators, such as aggregated sentiments about consumer confidence, the economic past, or the economic future. [See, for example, Erikson et al. 2000]. Further, within the literature utilizing these subjective indicators, there is a controversy over whether the economic evaluation is retrospective or prospective. [See, for example, Clarke and Stewart 1994.]

While the volume of economic voting studies on Hungary is slim, it does exist. Recalling our review, it seems clear that the unemployment rate is the leading candidate among objective economic indicators (Fidrmuc 2000, Stegmaier and Lewis-Beck 2009). Further, it stands naturally as a retrospective indicator. With regard to a prospective measure, subjective future expectations stand out (Anderson et al. 2003; Duch 2001). In terms of a strictly economic explanation, then, we posit the following model, in words

Vote = f(Retrospective Economics, Prospective Economics) Eq.1.

Voters, holding the incumbent party responsible for the economy (past and future), act in classic fashion, rewarding or punishing with their votes (Fiorina 1981, Key 1966, Lewis-Beck 1988, Powell and Whitten 1993).

Of course, this model is naïve, in that it argues for economic determinism. As in other democracies, long-term forces operate on the voter. In political behavior terms, this standing decision might be described as party identification, or even ideological identification. Anderson et al. (2003) argue that, in the Hungarian case, it is the Hungarian voter's ideological identification along a left-right continuum that counts. With our aggregate time series data, we cannot resolve this micro question. However, we can easily take into account this long-term partisanship anchor (of either party or ideology) by introducing vote intention at a lag, on the right-hand side of the equation.

In addition to long-term political forces, such as partisanship, there are short-term ones operating. These are important political events, enumerated above, acting to "shock" to the electorate. To complete the model specification, these events must be included. We arrive at the following general model, in words:

Incumbent Vote = f(Economics, Partisanship, Events) Eq.2.

RESULTS

In Table 1 are various operationalizations of the model, estimated with ordinary least squares (OLS). The modeling proceeds from the simple to complex, in order to illuminate the findings, and to test specification alternatives. Model 1 is purely a baseline statistical model, describing the vote intention as a lagged function of itself. As expected, the popularity series is heavily autocorrelated (AR1). The presence of this V(t-1) term on the right-hand side serves to proxy the strong influence of long-term partisan attachment. [The Durbin-Watson statistics are near the value of 2.0, as would be expected given this specification; see Kmenta, 329, 1997).). Further, it acts as a powerful control, rendering ordinary significance tests a tough standard for judging the substantive impact of the other independent variables. (Technically, the lagged dependent variable on the right-hand side appears to have a stronger and more statistically significant effect than it should, while the other variables tend to have a weaker and less statistically significant effect than they should. Hence, the rationale here employing the .10 level of significance. [See Pindyck and Rubenfeld 1991, 305).]

[TABLE 1 ABOUT HERE]

Models 2 and 3 focus on the impact of economic oscillations. With respect to these measures, multicollinearity poses difficulties. Although change in inflation (CPI) correlates significantly with vote intention (-.26), when paired with the unemployment rate in a multiple regression equation it fails to achieve statistical significance, unlike the unemployment rate (see Model 2). Rising unemployment harms the ruling MSZP. Still, while the unemployment rate correlates highly (-.64) with vote intention, it fails to achieve statistical significance when paired with economic expectations in a multiple regression equation. However, economic expectations easily attain statistical significance (see Model 3), in the face of this, and subsequent, controls. These economic expectations appear important in accounting for vote intentions, increasing the adjusted R-squared by 3 percentage points over Model 2, and reducing the SEE by almost half-a-point. An intuitive appreciation of the vital role of economic expectations comes from plotting it again MSZP vote intention, as in done in Figure 2. Clearly, it wields a commanding influence over the Socialist's fate at the polls.

[FIGURE 2 ABOUT HERE]

Models 4 thru 6 examine the role of international and domestic shocks, given the influence of these ongoing economic fluctuations. The introduction of troops into Iraq has a sharply damping effect on Socialist support, as did their poor election campaign heading into the 2006 contest (see Model 6). But other events benefitted the ruling Socialists, at least in the short-run (see Model 6). Most surprising was the substantial boost (over two points) in support that came in response to 2006 riots over the PM's economic "lies." This finding appears compatible with the notion of a "sympathy vote" for the government, as a defense against the excesses of the rioters. In addition, the government recorded a sympathy bounce when the coalition split, leaving them with minority status. (The appointment of a new PM in 2004 might have also given them a bump, but its properly signed coefficient misses significance). Finally, in the face of the great economic difficulties in fall 2008, the IMF bailout aided them considerably (a net gain of more than three points).

CONCLUSIONS

Government vote support in Hungary can be explained, despite the newness of its democracy and the uncertain economic times. A straightforward model of political behavior, based on long-term and short-term forces, accounts for 93 percent of the variation in vote intention. Moreover, it registers an average prediction error of only two points. What are these forces for change? Besides partisanship, economic oscillations count for much. Hungarian voters, like their counterparts in more mature democracies, are economic voters. They make judgments about the economic past and the economic future. Collinearity among these assessments renders a precise sorting of effects problematic.[3] However, we offer some tentative answers. In arriving at these judgments, they look at the real economy, in particular whether unemployment has been going up or

[3] The various economic measures tend to be highly collinear, making it difficult to separate out precisely which ones are operating. In our analyses of Table 1, we demonstrate that objective conditions matter, in particular the unemployment rate. However, another objective economic condition, e.g., change in the leading indicator, correlated (r = .31) with vote intention, but did not "make the cut" for the model. When included in a model with only the lagged vote intention, the measure carries the wrong sign and is insignificant. Note that "leading indicator" is a prospective measure. The prospective measure that survives in the model here is subjective, that of economic expectations. No retrospective subjective measure is in the model. However, consumer confidence, which is a retrospective subjective measure, correlates highly with vote intention (r = .85). Again, it did not manage significance in a multiple regression model of vote intention, because of collinearity. However, if consumer confidence replaces economic expectations in the models, the results are nearly identical. Given such collinearity issues, the reader should place less faith in the particular economic measures shown significant in Table 1, and more faith in the fact they show that objective and subjective, retrospective and prospective, economic measures all matter.

down. But they do not only judge retrospectively. Too, they judge prospectively, assessing the economic future over the next year. Overall, then, the standard reward-punishment theory of economic voting serves well for understanding Hungarian elections.

Besides oscillations, shocks matter. The unpopular Iraq war, and poor electoral campaigning, cost the Socialists plenty. These costs were partly offset by unexpected gains, induced by a backlash to the 2006 riots, their courageous status as a minority government, and the timely arrival of IMF bailout funds. Nevertheless, all these things taken together – ongoing economic trends and attendant political surprises – have undercut severely the support for the ruling Socialists. It would seem they face a great challenge, in their struggle to eek out a victory in 2010.

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Figure 1: Hungarian Socialist Support, May 2002 – March 2009

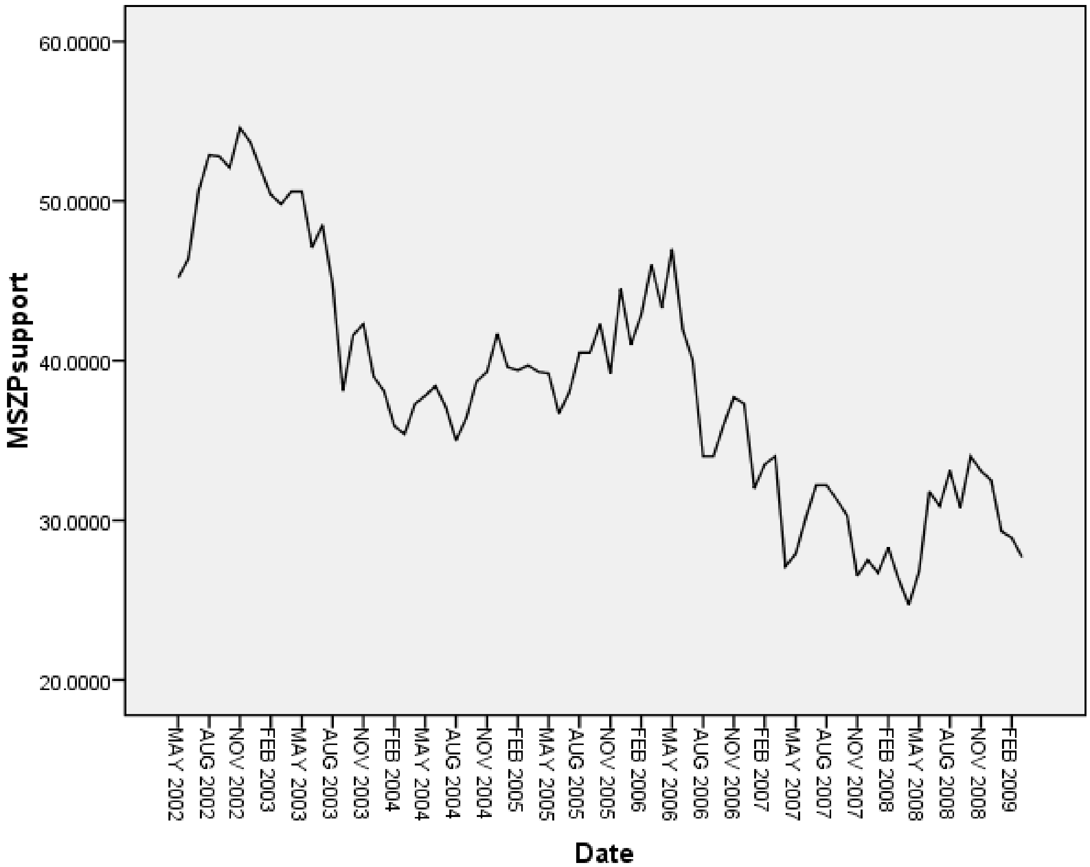

Figure 2: Hungarian Socialist (MSZP) Support and Economic Expectations

Table 1: Hungarian Socialist Party Popularity Models, 2002-2009

	Model 1: Prior support	Model 2: Economic Conditions	Model 3: Economic Assessments	Model 4: Economics & War	Model 5: Economics and Events	Model 6: Economics, War and Events
MSZP(t-1)	.96*** (26.0)	.90*** (18.9)	.70*** (13.2)	.69*** (13.1)	.70*** (13.12)	.69*** (13.08)
CPI change		-.68 (-1.26)				
Unemployment Rate		-.613* (-1.45)				
Econ Future			.12*** (5.85)	.13*** (6.08)	.14*** (6.43)	.14*** (6.68)
Iraq Troops				-.88* (-1.59)		-.94** (-1.68)
Events:						
New PM					.19 (.13)	.82 (.54)
Campaign					-1.75* (-1.59)	-2.08** (-1.88)
2006 Riots					2.32* (1.56)	2.13* (1.45)
Minority govt					2.96** (1.94)	2.71** (1.78)
IMF Bailout					3.2** (2.12)	3.04** (2.04)
Constant	1.56 (1.08)	8.21** (1.91)	13.53*** (5.71)	14.19*** (5.95)	13.59*** (5.64)	14.31*** (5.92)
DW	2.15	2.2	2.3	2.37	2.39	2.43
N	83	82	82	82	82	82
R^2	.89	.89	.92	.92	.93	.94
Adjusted R^2	.89	.89	.92	.92	.93	.93
SEE	2.53	2.5	2.13	2.11	2.04	2.02

***significant at .01, ** significant at .05, * significant at .10; one-tailed tests.
t-statistics reported in parentheses.