DIGITALES ARCHIV

ZBW – Leibniz-Informationszentrum Wirtschaft ZBW – Leibniz Information Centre for Economics

Algarhi, Amr Saber

Article The effect of election outcome on economic activity : a tale of two countries

Economics and Business Letters

Provided in Cooperation with: University of Oviedo

Reference: Algarhi, Amr Saber (2024). The effect of election outcome on economic activity : a tale of two countries. In: Economics and Business Letters 13 (4), S. 213 - 221. https://reunido.uniovi.es/index.php/EBL/article/download/20833/16638/71363. doi:10.17811/ebl.13.4.2024.213-221.

This Version is available at: http://hdl.handle.net/11159/703098

Kontakt/Contact ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics Düsternbrooker Weg 120 24105 Kiel (Germany) E-Mail: *rights[at]zbw.eu* https://www.zbw.eu/

Standard-Nutzungsbedingungen:

Dieses Dokument darf zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden. Sie dürfen dieses Dokument nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, aufführen, vertreiben oder anderweitig nutzen. Sofern für das Dokument eine Open-Content-Lizenz verwendet wurde, so gelten abweichend von diesen Nutzungsbedingungen die in der Lizenz gewährten Nutzungsrechte.



BY NC ND https://savearchive.zbw.eu/termsofuse



Leibniz-Informationszentrum Wirtschaft Leibniz Information Centre for Economics

Terms of use:

This document may be saved and copied for your personal and scholarly purposes. You are not to copy it for public or commercial purposes, to exhibit the document in public, to perform, distribute or otherwise use the document in public. If the document is made available under a Creative Commons Licence you may exercise further usage rights as specified in the licence.





The effect of election outcome on economic activity: a tale of two countries

Amr Saber Algarhi* 🔟

Sheffield Business School, Sheffield Hallam University, United Kingdom

Received: 19 January 2024 Revised: 25 May 2024 Accepted: 10 June 2024

Abstract

This paper investigates the effect of partisan politics on macroeconomic performance in France and the United Kingdom between 1971-2023. Using a panel autoregressive distributed lag (ARDL) model, it examines whether ideological divides between left- and right-wing parties and coalition governments relate to accountability for key macroeconomic indicators. Results suggest that economic growth is slightly lower under the left-wing governments, whereas unemployment and inflation rates are higher with a statistically significant difference of 10% for inflation. Furthermore, coalition governments underperform on growth and unemployment, struggling to stimulate economic expansion. Finally, despite the characterization of political parties as either right or left leaning in terms of cultural matters, their implemented economic policies seem to yield comparable economic outcomes.

Keywords: growth, inflation, panel ARDL, partisan politics, unemployment *JEL Classification Codes*: C23, D72, E24, E65, N14, O47

1. Introduction

Several studies show that macroeconomic performance has a substantial influence on election results, with more favourable economic conditions typically increasing votes for incumbent governments (e.g. Fair, 1978; Lewis-Beck and Stegmaier, 2000; Becher and

^{*} Corresponding author. E-mail: <u>a.algarhi@shu.ac.uk</u>.

Citation: Algarhi, A.S. (2024) The effect of election outcome on economic activity: a tale of two countries, *Economics and Business Letters*, 13(4), 213-221. DOI: 10.17811/ebl.13.4.2024.213-221.

Donnelly, 2013, Pan and Tsai, 2021). However, limited research has recently examined the potential impact of election results on macroeconomic performance (e.g. Potrafke, 2012; Kane, 2017; Algarhi and Tziamalis, 2021). According to Verstyuk (2004), Republicans administrations in the US that promote right-wing (RW) policies have historically been linked with slower economic growth and higher inflation. Likewise, Blinder and Watson (2016) emphasise that under Democratic-led political left leadership, the US economy consistently performs better across a range of economic indicators. Broadly, the widespread presence of partisan media often polarises voters' economic perspectives between left and right political ideologies via mechanisms, such as selective exposure, partisan cues, and party identity salience (van Dalen, 2020). However, it remains unclear whether the various policies implemented by these political parties truly have a discernible effect on key economic indicators, particularly growth, unemployment, and inflation.

This study aims to investigate the impact of election results on economic activities in France and the UK between 1971 and 2023. Panel ARDL models are used to examine whether the left-right political divide has significant effects on macroeconomic indicators. This paper contributes to the literature by providing novel evidence on whether the partisan composition of government affects economic outcomes in two major European democracies. To the best of my knowledge, this is the first study that leverages the panel ARDL approach to compare the economic performance of left, right, and coalition administrations over the past five decades in these countries.

This paper proceeds as follows. Section 2 presents the data and estimation strategy. Section 3 discusses the empirical estimates obtained from the panel ARDL model. Section 4 concludes.

2. Data and estimation strategy

The data sample consists of the real GDP growth (gdpg), unemployment (ue) and inflation (inf) rates from 1971:Q1 to 2023:Q2 (420 observations) for France and the UK and is sourced from Federal Reserve Economic Data (FRED) at the Federal Reserve Bank of St. Louis. To quantify the left-right partisan divide, alongside the coalition governments, I construct two dummy variables: *LW* takes the value of 1 if a left-wing (LW) party is in office, and 0 for a right-wing party. The Labour Party in the UK and the Socialist Party in France are generally viewed as left-wing political parties, whereas the Conservative Party in the UK and parties such as the Union for a Popular Movement, the Republicans, and Renaissance in France are seen as right-wing parties. Concurrently, *CG* captures periods when a coalition government of two or more political parties is formed. In the UK, coalition governments materialised on two occasions, while France witnessed four coalition government periods since 1971.

To estimate the impact of elections outcome on economic activity, I extend the panel ARDL model developed by Pesaran et al. (1999) by allowing for the two dummy



variables,

$$y_{it} = \sum_{j=1}^{p} \lambda_{ij} y_{i,t-j} + \sum_{j=0}^{q} \gamma'_{ij} x_{i,t-j} + \delta_{1i} L W_{it} + \delta_{2i} C G_{it} + \mu_i + \varepsilon_{it}$$
(1)

which is estimated in its corresponding error correction (EC) representation as follows,

$$\Delta y_{it} = \phi_i (y_{i,t-1} - \beta'_i x_{it}) + \sum_{j=1}^{p-1} \lambda^*_{ij} \Delta y_{i,t-j} + \sum_{j=0}^{q-1} \gamma^{*'}_{ij} \Delta x_{i,t-j} + \delta_{1i} L W_{it} + \delta_{2i} C G_{it} + \mu_i + \varepsilon_{it}$$
(2)

where ϕ_i and β_i are the error-correction mechanism impact and the long-run effect of the explanatory variables (x_{it}) , respectively. The parameters λ_i and γ_i are the short-run parameters and ε_{it} is the disturbance. One valuable feature of panel ARDL models is that they analyse the dynamics between economic variables across different time horizons. These models account for both long-run cointegration relationships, which capture the permanent equilibrium effects, and short-run adjustments, which quantify the temporary deviations and the speed at which variables revert to their long-run equilibrium. The longrun parameters capture the permanent impacts on key macroeconomic variables such as economic growth, unemployment, and inflation, providing insights into their sustained behaviour. Conversely, the short-run parameters capture the transitory dynamics and adjustments that occur as variables deviate from their long-run equilibrium relationships. These parameters quantify temporary impacts, such as the short-run trade-off between inflation and unemployment, and their immediate effects on economic growth, allowing for informed decision-making based on both short-term fluctuations and long-term economic trends (Pesaran, 2015).

Although panel ARDL models do not control for cross-sectional dependence, they address long panels (T > N) that contain unit roots. Importantly, panel ARDL models are well-suited for analysing the present data for two reasons: First, they can handle a mixture of I(0) and I(1) regressors, providing flexibility. Second, the inclusion of sufficient lags can mitigate endogeneity issues, particularly when estimating the long-run relationships in the model. Additionally, the Pooled Mean Group (PMG) estimation approach imposes a restriction that the long-run coefficients are equal across cross-sectional units, while permitting heterogeneity in the short-run dynamics, error variances, and adjustment coefficients. This approach improves efficiency and consistency while still accommodating a reasonable degree of diversity in dynamics across cross sections (Hsiao, 2022).

3. Results and discussion

Table 1 demonstrates small but consistent differences across the three variables in favour of RW governments over the past five decades. RW governments exhibits slightly higher



quarter-on-quarter growth rates (0.51% vs 0.47%), lower unemployment (7.31% vs 7.34%) and lower inflation (2.62% vs 2.82%), on average, compared to LW. However, growth and unemployment volatilities are greater under RW rule, indicating that LW policies may contribute to greater macroeconomic stability. Still, LW governments not only contribute to price increases but also to more volatile inflation rates. The Appendix includes Tables A.1-A.3, which present the correlation matrix of these variables, unit root and cointegration tests. These tests validate the use of a panel ARDL model for this analysis.

| | Overall | Left | Right | Coalition | France | UK |
|------|---------|---------|---------|-----------|---------|---------|
| gdpg | 0.50 | 0.47 | 0.51 | 0.45 | 0.50 | 0.49 |
| | (1.895) | (0.649) | (2.316) | (2.297) | (1.655) | (2.113) |
| ие | 7.32 | 7.34 | 7.31 | 7.93 | 7.84 | 6.80 |
| | (2.411) | (2.023) | (2.604) | (1.888) | (2.304) | (2.407) |
| inf | 2.69 | 2.82 | 2.62 | 1.56 | 4.08 | 1.31 |
| | (3.300) | (3.396) | (3.251) | (1.379) | (3.983) | (1.447) |
| Obs. | 420 | 150 | 270 | 101 | 210 | 210 |

Table 1. Summary statistics

Notes: Standard deviations in parenthesis.

Source: Author's own calculations.

Table 2, in columns (1)-(6), presents the estimation results of the EC model, for the full sample, with three different dependent variables. The specified models incorporate the lagged dependent variables $\Delta gdpg_{i,t-1}$, $\Delta ue_{i,t-1}$, $\Delta inf_{i,t-1}$ and $\Delta inf_{i,t-2}$. The analysis reveals significant dynamics, particularly the strong negative effect of unemployment fluctuations on economic growth. Columns (1)-(3) display the dynamic fixed effects (DFE) estimates indicating that, under LW, there are marginally lower growth, higher unemployment, and inflation rates. However, these differences are only significant for inflation at 5% level, which suggests that RW governments may pursue policies that help reduce inflation. Furthermore, the estimates show that coalition governments have significantly lower growth rates at the 5% level, as well as insignificant lower unemployment and inflation rates, compared to single party governments.

Columns (4)-(6) present the PMG estimates, which support the preceding findings. Economic growth is slightly lower under the LW, whereas unemployment and inflation rates are higher with a statistically significant differences of 10% for inflation. This could suggest that, while left- and right-wing parties promote different policies, their real-world economic impact may be more alike than distinct. Furthermore, the PMG estimation results substantiate that coalition governments underperform on growth and unemployment, with a significant struggle to stimulate economic expansion. Moreover, according to the PMG estimates, the long-run coefficients of gdpg and inf in column (5) remain statistically significant, although their magnitudes are lower than the estimates from the DFE. In column (6), unemployment appears to have a significant negative effect



on inflation in the long run. I should also mention that the estimated coefficient for the error mechanism (ECT) is significant in all cases, ranging from -1.48 to 0.99, suggesting that on average, deviations from the long-run equilibrium are corrected at a considerable pace, with half-lives between 4 and 12 quarters.

To further check the robustness of the previous findings using the full sample period, I perform an additional analysis on a subsample of the data, as presented in columns (7)-(9). This subsample excludes observations during two recent major economic crises: the global financial crisis (2008:Q1 - 2009:Q2) and the COVID-19 pandemic period (2020:Q2 - 2021:Q1). Re-estimating the model on this subsample omits periods characterised by severe economic disruption, which in turn examines whether the primary findings are being influenced by including crisis period data in the full sample. The results remain indicative of no statistically significant differences in growth and unemployment rates between left and right-wing parties. However, a strongly statistically significant difference is confirmed, favouring RW parties, regarding inflation rates. The coefficient for LW in column (9) possesses greater magnitude with lower estimated standard error compared to the full sample estimation. In fact, unlike the full sample estimation, the coalition government coefficient loses statistical significance in column (7), indicating that coalition governments may exhibit similar economic performance to single-party governments.

Overall, the results from the three models used in this study demonstrate a significant impact of LW government on elevated inflation levels, while the formation of a coalition government appears to have an unfavourable influence on economic expansion. Concurrently, in the long run, higher growth and inflation rates substantially reduce unemployment. I also conduct the Hausman test (see Table A.4 in the Appendix) to compare the difference between the DFE and PMG estimators. The test fails to reject the null hypothesis, providing evidence that the PMG presents consistent and efficient results. Furthermore, I use lags for the dummy variables given that government policies often exhibit lagged effects. However, the use of lagged dummy variables yields insignificant results.



| | DFE | | | PMG | | | PMG (exclud | ing GFC an | d Covid-19 |
|-------------------------|-----------------------|-----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Δy_{it} | $\Delta g d p g_{it}$ | $\Delta u e_{it}$ | Δinf_{it} | $\Delta g d p g_{it}$ | $\Delta u e_{it}$ | Δinf_{it} | $\Delta g d p g_{it}$ | $\Delta u e_{it}$ | Δinf_{it} |
| Long-run co | oefficients | | | | | | | | |
| $gdpg_{it}$ | | -0.086*** (0.0185) | 0.264 (0.557) | | -0.071*** (0.012) | 0.480 (0.551) | | -0.195*** (0.311) | -0.109 (0.483) |
| ue _{it} | 0.014 (0.0317) | | -1.292*** (0.336) | 0.020 (0.033) | | -1.709*** (0.305) | -0.016 (0.025) | | -0.367** (0.158) |
| inf _{it} | 0.012 (0.026) | -0.015** (0.0062) | | 0.010 (0.025) | -0.014** (0.007) | | -0.004 (0.017) | -0.004 (0.009) | |
| Short-run c | oefficients | | | | | | | | |
| ECT (ϕ_i) | -1.413*** (0.082) | 0.991*** (0.008) | -0.068*** (0.017) | -1.484*** | 0.986*** (0.007) | -0.053*** (0.004) | -0.932*** (0.105) | 0.976*** (0.014) | -0.128 (0.107) |
| $\Delta g d p g_{it}$ | | 0.097*** (0.014) | -0.025 (0.025) | ((())) | 0.091*** (0.030) | -0.030*** (0.009) | | 0.139*** (0.003) | -0.064*** (0.024) |
| $\Delta g dp g_{i,t-1}$ | 0.169*** (0.051) | 0.038*** | | 0.212*** (0.053) | 0.033*** (0.009) | | 0.034 (0.045) | 0.092** (0.039) | |
| $\Delta u e_{it}$ | 0.379 (0.286) | (****) | -0.008 (0.135) | -0.407 (1.535) | | -0.134 (0.126) | -0.394 (0.317) | | 0.049 (0.068) |
| $\Delta u e_{i,t-1}$ | -1.143*** (0.278) | 0.187*** (0.048) | | -0.870*** (0.084) | 0.345 (0.285) | | -0.134*** (0.038) | 0.189 (0.090) | |
| Δinf_{it} | -0.062 (0.094) | -0.015 (0.016) | | -0.070*** (0.014) | -0.021 (0.020) | | -0.056*** (0.006) | -0.016 (0.013) | |
| $\Delta inf_{i,t-1}$ | | | -0.264*** (0.049) | (0.02.1) | | -0.042 (0.509) | | | 0.017 (0.432) |
| $\Delta inf_{i,t-2}$ | | | 0.094* (0.049) | | | -0.062 (0.051) | | | -0.026 (0.016) |
| LW _{it} | -0.065 (0.207) | 0.027 (0.036) | 0.201** (0.103) | -0.080 (0.173) | 0.037 (0.034) | 0.274* (0.141) | -0.30 (0.053) | 0.050 (0.037) | 0.329*** (0.059) |
| CG _{it} | -0.521** (0.254) | -0.024 (0.044) | -0.119 (0.125) | -0.200** (0.098) | 0.012 (0.058) | -0.081 (0.162) | -0.111 (0.069) | -0.018 (0.096) | -0.196 (0.156) |
| Constant | 0.549 (0.412) | 0.071 (0.072) | 0.905*** (0.198) | 0.529*** (0.069) | 0.105*** (0.033) | 0.855*** (0.112) | 0.657*** (0.074) | 0.277*** (0.092) | 0.634 (0.437) |
| Obs. | • | • | • | 416 | 416 | 414 | 396 | 396 | 394 |

| Table 2. Panel ARDL estimations | (France and the UK, 1971-2023) |
|---------------------------------|--------------------------------|
|---------------------------------|--------------------------------|

Notes: Standard errors in parenthesis. *** p<0.01, ** p<0.05, * p<0.1. Source: Author's own calculations.

4. Conclusion

This paper provides new evidence for the impact of election outcomes on major macroeconomic indicators, including economic growth, unemployment, and inflation. Using data from France and the UK spanning 1971 to 2023, the results indicate statistically insignificant differences between the left- and right-wing parties in impacts on growth and unemployment. However, the findings reveal that RW governments exhibit superior control of inflation, while LW leadership is linked to rising prices. A second

13(4), 213-221, 2024

218



notable finding is that coalition governments underperform in fostering economic growth relative to single-party governments.

In contrast to the United States, the empirical evidence from France and the UK suggests that, over the past five decades, political parties classified as left- or right-wing on cultural issues have implemented economic policies leading to similar macroeconomic outcomes. In other terms, macroeconomics displays only minor partisan effects; political orientation in France and the UK does not skew government decision-making or macroeconomic outcomes. Future research should further explore the relationships between government partisanship, coalitions, and macroeconomic performance.

Acknowledgements.

The author gratefully acknowledges helpful comments and suggestions from the editor (Professor Francisco J. Delgado) and an anonymous referee.

References

- Algarhi, A.S., and Tziamalis, A. (2021) Does the UK economy grow faster under a Conservative or Labour government? *Economics and Business Letters*, 10(2), 95–101.
- Becher, M., and Donnelly, M. (2013) Economic performance, individual evaluations, and the vote: Investigating the causal mechanism, *The Journal of Politics*, 75(4), 968-979.
- Blinder, A.S., and Watson, M.W. (2016) Presidents and the US economy: An econometric exploration, *American Economic Review*, 106(4), 1015-1045.
- Fair, R.C. (1978) The effect of economic events on votes for president, *The Review of Economics and Statistics*, 60(2), 159-173.
- Hsiao, C. (2022) Analysis of panel data (4th ed.), Cambridge University Press.
- Kane, T. (2017) *Presidents and the US Economy from 1949 to 2016*, Hoover Institution Economics Working Papers, 17101.
- Lewis-Beck, M.S., and Stegmaier, M. (2000) Economic determinants of electoral outcomes, *Annual Review of Political Science*, 3(1), 183-219.
- Pan, C., and Tsai, P. (2021) The discontinuous effect of economic performance on political turnover, *Applied Economics Letters*, 29(17), 1564-1570.

Pesaran, M.H. (2015) Time series and panel data econometrics, Oxford University Press.

- Pesaran, M.H., Shin, Y., and Smith, R.P. (1999) Pooled mean group estimation of dynamic heterogeneous panels, *Journal of the American Statistical Association*, 94(446), 621-634.
- Potrafke, N. (2012) Political Cycles and Economic Performance in OECD Countries: Empirical Evidence from 1951–2006, *Public Choice*, 150, 155–179.
- Van Dalen, A. (2020) Red economy, blue economy: How media-party parallelism affects



the partisan economic perception gap, *The International Journal of Press/Politics*, 26(2), 385-409.

Verstyuk, S. (2004) Partisan differences in economic outcomes and corresponding voting behavior: Evidence from the U.S., *Public Choice*, 120(1/2), 169-189.



Appendix

| | Ove | Overall | | Left | | Right | |
|-----|--------|---------|--------|-------|--------|--------|--|
| | gdpg | ие | gdpg | ие | gdpg | ue | |
| ue | 0.017 | | -0.053 | • | 0.027 | | |
| inf | -0.013 | -0.342 | -0.030 | 0.011 | -0.012 | -0.505 | |

Table A.1. Variables correlation matrix

Table A.2. Panel unit root tests

| | LLC | | IPS | | Hadri LM | |
|--------------|------------|------------|------------|------------|------------|-----------|
| | Const. | Const. & | Const. | Const. & | Const. | Const. & |
| | | trend | | trend | | trend |
| gdpg | -17.566*** | -20.795*** | -16.847*** | -16.902*** | -0.604 | 0.960 |
| ue | -0.942 | -0.800 | -0.220 | -0.078 | 61.957*** | 87.978*** |
| $\Delta u e$ | -8.732*** | -10.503*** | -10.408*** | -10.498*** | 3.458 | 1.483 |
| inf | -1.015 | -1.047 | -3.509*** | -4.419*** | 114.510*** | 64.990*** |
| Δinf | -11.274*** | -13.104*** | | | -1.015 | -0.688 |

Notes: LLC, IPS and Hadri LM represents the Levin-Lin-Chu test, Im, Pesaran and Shin test and Hadri Lagrange multiplier test, respectively. The null hypothesis for Hardi LM is that all panels are stationary. *** p<0.01, ** p<0.05, * p<0.1.

Table A.3. Pedroni cointegration test

| | gdpg | ие | inf |
|---------|------------|--------|-----------|
| Mod. PP | -46.858*** | 0.976 | -6.097*** |
| PP | -29.906*** | 0.122 | -4.154*** |
| ADF | -29.609*** | -0.679 | -4.678*** |

Notes: Mod. PP, PP, ADF represents the modified Phillips- Perron t, Phillips-Perron t, and Augmented Dickey-Fuller t. *** p < 0.01, ** p < 0.05, * p < 0.1.

| Table A.4. | Hausman | test |
|------------|---------|------|
|------------|---------|------|

| | Chi-square $(\chi 2)$ | p-value |
|------|-----------------------|---------|
| gdpg | 0.83 | 0.447 |
| ие | 0.99 | 0.610 |
| inf | 1.62 | 0.936 |