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Facing up to the facts: What causes economic perceptions?

Catherine E. De Vries [a, *], Sara B. Hobolt [b], James Tilley [c]

[a] University of Essex, United Kingdom
[b] London School of Economics and Political Science, United Kingdom
[c] University of Oxford, United Kingdom

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A B S T R A C T

The link between individual perceptions of the economy and vote choice is fundamental to electoral accountability. Yet, while it is well-established that economic perceptions are correlated with voting behaviour, it is unclear whether these perceptions are rooted in the real economy or whether they simply reflect voters' partisan biases. This article uses time-series data, survey data and unique experimental evidence to shed new light on how British voters update their economic perceptions in response to economic change. Our findings demonstrate that while partisanship influences levels of economic optimism, people respond to information about real economic changes by adjusting their economic perceptions.

Models of economic voting assume that voters respond to changes in the real economy by updating their economic perceptions and rewarding or punishing the incumbent government accordingly (for an overview see Lewis-Beck and Stegmaier, 2000). While views differ on how exactly the economic vote works, scholars generally agree that economic conditions are important determinants of incumbent vote choice (Duch and Stevenson, 2008; Lewis-Beck, 1988; Van Der Brug et al., 2007; Lewis-Beck and Whitten, 2013). Yet, a burgeoning literature suggests that this link between the economy and voters' sanctioning of governments is largely illusory. Instead of basing evaluations of economic performance on facts, it is argued that it is partisanship that shapes economic perceptions. As partisans tend to perceive the economy in a way that credits their own party, the relationship between the real economy and perceptions of the economy is weakened (Wlezien et al., 1997; Evans and Andersen, 2006; Lavine et al., 2012; Bartels, 2002; De Boef and Kellstedt, 2004; Evans and Pickup, 2010; Enns et al., 2012).

We revisit the debate about the degree to which people's economic perceptions are rooted in economic reality or partisan biases by exploring a question that has been largely overlooked: do people adjust their economic perceptions when information about the economy changes? By complementing the analysis of existing time-series data with a unique survey that includes an embedded experiment, we examine how citizens update their perceptions when new information arrives. We show that while partisanship influences the level of economic optimism and pessimism, people's perceptions of the economy do respond to information about changes in real economic indicators. Specifically, we report three main findings. First, real world conditions profoundly shape economic perceptions. Economic growth is strongly related to how people view the state of the economy. Moreover, while government partisans are consistently more optimistic than opposition partisans, everyone reacts in a similar way to changes in the real economy. Second, people's views and knowledge of real economic indicators shape their perceptions of general economic performance, even when accounting for partisanship. Third, people who hold inaccurate views about the real economy update their general economic perceptions when confronted with correct information about unemployment and growth.

These results have important implications for our understanding of the ability of voters to use elections to hold governments accountable for economic outcomes. The core intuition of the economic voting model is that voters punish governments for bad economic performance and reward them for good performance (Lewis-Beck, 1988; Nannestad and Paldam, 1994). For this reward-punishment mechanism to work, people need to update their knowledge about real economic indicators, change their subjective economic evaluations and then decide whether to throw the rascals out or not. Our findings suggest that while partisan biases exist and are persistent, changes and signals from the real economy do change people's general perceptions in line with economic developments. Thus, partisan biases can co-exist with economic

* Corresponding author.
E-mail address: catherine.devries@essex.ac.uk (C.E. De Vries).

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voting and electoral accountability.

This study proceeds as follows. First, we briefly introduce the ongoing debate about the extent to which individuals' economic perceptions are rooted in economic reality or partisan biases. We develop our argument that although partisan biases influence the level of economic optimism, information about changes to the economic reality nonetheless shapes people's economic perceptions. Next, we present three empirical tests of this argument using recent data from Britain. First, we use time series data from the British Election Study Continuous Monitoring Surveys (BES-CMS) 2004–2013 to examine whether people's economic perceptions track real world economic conditions, and how partisanship colours these perceptions. Second, we analyse an original survey of a representative sample of the British population to examine how specific knowledge of unemployment and growth rates affects general economic perceptions. Third, we design a survey-embedded experiment that allows us to examine how people respond to new information about the economy, and disentangle the causal relationships between real-world economic information, partisanship and economic perceptions. We conclude by highlighting the importance of our findings for the study of economic voting and the origins of economic perceptions.

1. What shapes economic perceptions?

Perceptions of the economy matter when voters decide which party to support. Economic perceptions are highly correlated with vote choice: voters are more likely to oust an incumbent when they perceive the economy to have deteriorated (for overviews see Lewis-Beck and Stegmaier, 2000; Lewis-Beck and Whitten, 2013). This raises the question of what information people use to generate these evaluations of the economy. This question is crucial to models of economic voting that rely on the assumption that there is a relationship between changes in the real economy, people's economic perceptions and ultimately their behaviour at the ballot box. For the economic vote to exist, people need to use recent economic information to update their economic evaluations (Gerber and Green, 1998, 1999).

The degree to which people's economic perceptions are in fact rooted in economic reality is a topic of much debate. A large body of work suggests that economic reality does affect economic evaluations. For instance, when inflation or unemployment rates rise, people's economic evaluations become more pessimistic (Fuhrer 1988; Krause, 1997). Moreover, MacKuen and colleagues show that although voters may have hazy factual knowledge about the state of the economy, their overall sense of macro-economic improvement and decline (or 'mood' of the economy) is often remarkably acute (MacKuen et al., 1992; Erikson et al., 2002). Finally, Lewis-Beck and colleagues (Lewis-Beck, 2006; Lewis-Beck et al., 2008; Lewis-Beck and Whitten, 2013; Nadeau et al., 2013) have repeatedly shown that economic perceptions are both linked to economic reality and influence people's decisions at the ballot box.

Nonetheless, other studies have cast doubt on the competency of voters to punish or reward governments on the basis of economic performance. For example, Blendon et al. (1997) suggest that only one out of eight US respondents can correctly cite the rate of inflation and unemployment within half a percentage point. Similarly, Conover et al. (1986) show that US voters know little about unemployment and inflation rates (although they do also show that trends, particularly in unemployment, are picked up much faster). Nannestad and Paldam (1994) report similar findings for Denmark. Equally, Ansolabehere et al. (2013) show that while people hold quite accurate views of familiar economic quantities like petrol prices, more abstract quantities, like unemployment levels, are difficult to grasp. Healy and Lenz (2014) demonstrate that voters may intend to hold governments to account for cumulative growth, but given that this information is not readily available to them, they simply use economic conditions at the end of the electoral cycle. Related studies have found that widespread misinformation can lead to collective preferences that are far different from those that would exist if people were correctly informed (Kuklinski et al., 2000). All in all, this evidence suggests that people may actually be rather ill-informed about the state of the real economy.

What is more, people's perceptions about economic conditions may not just be inaccurate, but also strongly distorted by political confounders (Conover et al., 1986; Wlezien et al., 1997; De Boef and Kellstedt, 2004; Bartels, 2002; Evans and Andersen, 2006; Tilley et al., 2008; Enns et al., 2012; Bisgaard, 2015). This alternative view to the 'rational voter' model claims that partisanship leads people to resist new information (Zaller 1992; Taber and Lodge, 2006; Lavine at al 2012).[1] Partisanship provides a lens through which individuals view the political world (Campbell et al., 1960; see also Johnston, 2006) and produces systematic biases in what political information citizens attend to and how that information is interpreted, processed and evaluated (Downs, 1957; Fiorina, 1981; Erikson et al., 2002; Tilley and Hobolt, 2011). Thus, people largely ignore facts about the economy, and economic perceptions stem primarily from partisan attachments. People who prefer governing parties are on average more positive about the economy than people who prefer an opposition party. For example, Bartels (2002) argues that Democrats and Republicans have drastically different views of objective economic conditions such as the budget deficit or unemployment rates. Over half of Democrats in 1988 claimed that inflation had worsened since 1980 even though it had actually significantly improved (Bartels, 2002). Ansolabehere et al. (2013) show that partisans of the incumbent party underestimate unemployment figures while opposition partisans overestimate them. Other research has also shown that individuals are reluctant to update their beliefs when presented with corrective information if that information runs counter to their ideological predisposition (Nyhan and Reifler, 2010). Finally, Evans and colleagues have more generally shown that partisan biases consistently skew general perceptions of economic performance (Evans and Andersen 2006; Evans and Pickup, 2010; Pickup and Evans, 2013).

In contrast to the classic model of the rational economic voter, the consensus in these studies is that the link between real world economic conditions and economic perceptions is rather weak, while strong links exist between partisanship and economic conditions. We suggest that both causes of economic perceptions are in fact simultaneously at work. Our argument is simple. We maintain that although partisan biases distort economic perceptions, changes to economic reality still cause changes to people's perceptions. In other words, while government partisans remain more positive about the economy than opposition partisans, they nonetheless adjust their perceptions downwards when receiving negative economic news, such as in times of economic crisis.

In order to empirically examine our argument, we thus focus on the *malleability* of economic perceptions in response to (information about) changes in the real economy. We test our argument in three ways. First, we assess whether people's economic perceptions track real world economic conditions. Second, we examine how specific knowledge of unemployment and growth rates affects general economic perceptions. Third, and finally, we disentangle

[1] A complicating factor here is that economic information is often provided by political actors who have an incentive to actively distort perceptions about the actual state of the economy (Besley and Prat, 2006; Larcinese et al., 2011). Indeed Alt et al. (2016) show that information from a source with high credibility based on institutional expertise and little incentive to deceive, such as an independent central bank, affects voters more than information from partisan sources.