



THE POLITICAL ADVANTAGE OF RESTRAINING SPENDING

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When lawmakers cut spending, conventional wisdom seems to indicate that voters will oust those politicians come the next election cycle. Yet such a claim has little support empirically. A number of studies over the past 20 years seem to suggest that, all things being equal, there is no systematic relationship between spending cuts and adverse political outcomes. In fact, the opposite may be true: there may instead be a political advantage to restraining spending.

RESEARCH FINDINGS

- There seems to be little evidence that constituents penalize incumbent governments that reduce deficits. In a 1998 study, Alesina, Perotti, and Tavares estimate the probability of electoral success or defeat in a sample of 19 OECD member countries from 1960 to 1995 after their central governments reduced budget deficits.¹ They conclude that there is no statistically significant evidence that reducing a deficit increases the probability that voters will unseat their government when compared to many of the other things they could depose their government for, such as poor economic growth or runaway inflation.

A recent Mercatus Center working paper by Alesina offers an analysis of 10 OECD countries that had the largest cumulative multi-year deficit reductions between 1975 and 2008.² Over 19 elections, voters threw incumbents out of office 7 times, indicating an electoral defeat rate of about 37 percent. This is comparable to the 40 percent electoral turnover of all the OECD countries studied by Alesina in that period. Thus, he surmises that periods of sharp fiscal adjustment are not associated with a higher-than-average government turnover.

- There seems to be little evidence that constituents penalize incumbent governments that cut spending in order to balance the budget. In comparing deficit adjustments based on spending cuts to those based on tax increases, Alesina, Perotti, and Tavares estimate that when governments reduce budget deficits mainly with spending cuts, cabinet turnover is 20 percent, versus a 30 percent cabinet turnover when deficit adjustments are based on tax increases. Likewise, by taking a closer look at deficit reductions that occur mainly as a result of spending cuts—particularly cuts targeted at income-transfer programs and public employees' salaries—they find no significant evidence that such spending cuts are politically costly.

Likewise, when focusing on the seven OECD nations that reduced their deficits mostly through spending cuts (i.e., more than 50 percent of the deficit fix was composed of spending cuts), Alesina finds that the changes in government occurred in only 5 out of 13 elections, indicating an electoral-turnover rate of 33 percent.

- There seems to be little evidence to support the counterargument that governments make these fiscal adjustments when they had high approval ratings, allowing them to weather the political storm of their policies. Using public opinion data from the European Commission, Alesina, Perotti, and Tavares notice that government popularity is no higher than average before a fiscal adjustment is made. The average approval rating for the entire sample they studied was 44.5 percent, while the average popularity at the beginning of a calendar year in which large fiscal adjustments took place was a slightly lower 44.4 percent.

¹ Alberto Alesina, Roberto Perotti, and José Tavares, "The Political Economy of Fiscal Adjustments," *Brookings Papers on Economic Activity* 1998, no. 1 (1998): 197–266. The countries include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, the United Kingdom, and the United States.

² Alberto Alesina, "Fiscal Adjustments: What Do We Know and What Are We Doing?" (working paper no. 10-61, Mercatus Center at George Mason University, September 2010).



- There is, however, evidence that American voters may actually penalize incumbents for increasing spending. In a 1992 study, Sam Peltzman looks at the changes in electoral vote shares of senators and governor in light of changes in government spending (increases, in this case) at the state and federal level between 1950 and 1988.³ He finds that voters may penalize incumbent presidents by up to 1.5 percent of their vote share for increasing spending beyond the average rate. Peltzman's results further show that voters consistently penalize senators who are members of the incumbent president's party for hikes in federal spending as well. The decline in their vote share in those races can be as large as 0.3 percentage points. While these magnitudes may seem small (especially compared to a 6 percent or more incumbent advantage and a vote-share swing of 5 percent or more on the economic variables), they could be consequential in close elections, particularly those taking place during an economic downturn when the incumbency advantages are much weaker.

Looking at the states provides more statistically robust evidence that voters penalize elected officials who support higher-than-average spending. Big-spending governors can be penalized as much as 0.4 percentage points in an election.

An analysis of the electoral fate of the top-20 biggest spenders and the top-20 most fiscally conservative governors during the time studied yields interesting informal evidence of the same phenomenon. The big-spending governors win less than half as frequently (35 percent of the time) as the fiscally conservative governors (75 percent of the time). Their average vote share in the elections studied was also five percentage points less than the fiscally conservative governors (48.8 percent vs. 53.7 percent).

CONCLUSION

Many things can influence electoral outcomes, and it can be tricky to pinpoint exactly what leads to a defeat at the ballot box. However, taking into account a number of precipitating factors can be a useful exercise. Some of the factors may be beyond the direct control of the candidates, and a candidate may win even in spite of the prevailing spending record. Yet preliminary evidence from European nations indicates that voters did not seem to penalize candidates for reducing deficits through spending cuts. Analyses of U.S. elections at the federal and state level demonstrate that they may instead penalize candidates for excessive spending. While more data is needed and the data currently at hand require a great deal more analysis, the study results should be heartening to fiscally conservative politicians.

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³ Sam Peltzman, "Voters as Fiscal Conservatives," *Quarterly Journal of Economics* CVII, issue 2 (May 1992): 327–61.