

## 6

# The Global Financial Crisis

The word shock suggests something short and sharp. This does not mean that shocks only have short-term effects. A major shock is—by our definition—persistent and impossible to ignore. Shocks have the potential to reshape politics for a prolonged period of time, as happened in the case of the Global Financial Crisis.

The Global Financial Crisis, which began in 2007–8, was the most significant financial crisis since the Great Depression of the 1930s. The financial crisis was a major policy shock, causing substantial disruption to the economy and unprecedented financial support to the banking sector by the British government. The financial crisis resulted in a major competence shock for Labour, as voters began to see them as less trustworthy on the economy. In the subsequent 2010 General Election, Labour lost power after thirteen years of government and the Conservatives formed a coalition government with the Liberal Democrats. However, the 2010 General Election did not mark the end of the political impact of the Global Financial Crisis. The crisis dominated British politics between 2010 and 2015. We show in this chapter how it played a role in the outcome of the 2015 General Election, seven years after the escalation of the financial crisis in Britain.

Focusing on the shock of the Global Financial Crisis offers several novel insights into economic voting, the outcome of the 2015 General Election, and the ways in which shocks have electoral effects. The economic vote is usually thought of as a short-term mechanism: a reward or punishment for the incumbent depending on recent economic conditions (see Lewis-Beck and Stegmaier 2000 for a review). Voters are thought to be ‘myopic’, focusing only on the recent or immediate state of the economy. The short-term economic vote is certainly part of the economic voting story in 2015: the Conservatives did better among people who thought the economy was improving in the run-up to the 2015 General Election, and Labour did worse. However, we show that the economic vote can have a much longer time horizon. We demonstrate one way in which it does so: voters can continue to blame parties for past economic performance and carry over those memories and evaluations into future elections.

The Global Financial Crisis impacted directly on perceptions of Labour’s economic competence, but it also created a political opportunity for the Conservatives. The Conservatives won votes in 2015 by successfully piling blame for the aftermath of the financial crisis onto the previous Labour government. The Conservatives achieved this by attributing responsibility for the level of UK debt to Labour and

by winning electoral support on the basis of the widely perceived need for austerity measures: reductions in public spending to reduce the national debt and the size of the budget deficit. This shows how politicians can capitalize on old shocks to score new political points by persuading voters to attribute new blame for past policies and their effects. The nature of shocks means they can provide political opportunities well into the future.

## 6.1 The shock of the Global Financial Crisis

The Global Financial Crisis was a profound economic shock with wide-reaching consequences for the economy and financial institutions in the UK and internationally. The crisis began with the collapse of the US subprime mortgage market, which precipitated an international banking crisis. The US bank Lehman Brothers was forced to file for bankruptcy in September 2008, and others in the US were expected to follow. Despite the US Federal Government providing significant financial support to the US banking sector, banks continued to face severe difficulties borrowing money, and house prices dropped sharply. These problems spilled over to British banks in the autumn of 2008, leading to the nationalization of Northern Rock, a major high street mortgage lender. To stave off a larger banking crisis, the British government underwrote UK banks in the form of loans and guarantees ('the bailout of British banks') to the tune of £500 billion. The rescue package was designed to shore up economic and public confidence in the banking system and achieve, in Chancellor Alastair Darling's words, nothing less than the prevention of panic and social disorder.<sup>1</sup> The bailout package resulted in the government—and the UK taxpayer—becoming a major shareholder in Lloyds Bank and in RBS. The EU followed the UK government's initiative of investing vast amounts to maintain confidence in their national banking systems, with international coordination by seven central banks to lower interest rates to calm the crisis.

Despite substantial government intervention in the crisis, a period of widespread recession followed: a global economic downturn, a debt crisis in the Eurozone, and a period dubbed 'The Great Recession' (see Bermeo and Pontusson 2012 for a review). The Great Recession 'was a once-in-a-century event which disrupted the economies of most of the world's advanced democracies' (Clarke et al. 2016, 30). British GDP saw its largest drops in 2008,<sup>2</sup> but the question of when Britain would enjoy an economic recovery—and in particular a drop in the rising costs of fuel and other goods—ran well into the period after the 2010 General Election. Inflation only began to decline perceptibly in 2013.<sup>3</sup>

<sup>1</sup> [uk.businessinsider.com/alastair-darling-uk-breakdown-of-law-and-order-financial-crisis-2018-5](http://uk.businessinsider.com/alastair-darling-uk-breakdown-of-law-and-order-financial-crisis-2018-5)

<sup>2</sup> <https://www.ons.gov.uk/economy/grossdomesticproductgdp/timeseries/ihyq/qna>

<sup>3</sup> <https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23>

One political outcome of the Global Financial Crisis was a period of ‘austerity’ in British public policy: substantial reductions in public spending, resulting in—among other things—a prolonged wage-increase freeze for public sector workers. The incoming Conservative–Liberal Democrat coalition committed to reducing the size of the national debt and the budget deficit. The degree to which the Conservative–Liberal Democrat coalition sustained this policy is contested (as was its necessity) but the ‘age of austerity’ was to dominate the politics of the period after the 2010 General Election. Austerity only declined in political focus due to the subsequent political preoccupation with Brexit. It was only in October 2018—a full ten years after the start of the financial crisis—that Prime Minister Theresa May declared, somewhat controversially, ‘the end of austerity’<sup>4</sup> in her speech to the Conservative Party Conference, and the October 2018 budget promised public spending increases.

### The penalty to the Labour Party: long-term perceptions and political opportunities

On the face of it, the Labour government might have been expected to avoid a substantial electoral penalty for its handling of the financial crisis. The Labour government’s handling of the crisis—in particular the banking bailout—was not without praise, and Labour reminded voters that this was an international banking crisis, caused by failures made by international financial institutions. After all, the counterfactual of what might have happened had Labour *not* intervened so decisively could have been extremely severe. However, the Conservatives pointed to Labour’s public spending as part of the problem, arguing that the size of the national debt and budget deficit were exacerbating Britain’s economic problems and compounding the impact of the crisis. The decision to use £500 billion, with the justification that the banks were ‘too big to fail’, was a very difficult pill to swallow for voters, likely to be especially difficult for those in the most demanding economic circumstances. Moreover, presiding over a significant recession—regardless of actual levels of responsibility—is not good news for any government. The 2010 General Election saw a five-point swing from Labour to the Conservatives, with the economy an important influence on electoral choice (Whiteley et al. 2013; Johnston and Pattie 2011; Chzhen, Evans, and Pickup 2014). If voters thought the economy had worsened prior to 2010—and 59 per cent did—they were less likely to vote for Labour in 2010. This electoral penalty was likely to have been particularly pronounced for people and households who saw a decline in their income due to the crisis, or who were affected in other direct ways

<sup>4</sup> <https://www.bbc.co.uk/news/av/uk-politics-45733093/theresa-may-s-full-speech-to-2018-conservative-conference>

(Singer 2018). The shock meets our definition for being highly salient: an unmissable event that was noticeable and unavoidable for British voters, and which remained especially salient in the long-term for those people most affected.

One reason the shock of the crisis continued into 2015 is that the financial crisis had a long-term impact on Labour's reputation for economic competence. From thereon, the Conservatives became more trusted on the economy, reversing Labour's lead on the economy that the party had enjoyed since the early 1990s. The question of Labour's competence on the economy had dogged Labour before the 1990s. It was only following the Exchange Rate Mechanism crisis (in 1992) which badly damaged the Conservatives' reputation for economic competence, that Labour had a commanding lead over the Conservatives on economic competence. This lead continued until the Global Financial Crisis of 2008. Much also changed *between* 2010 and 2015: the Conservatives gained an increased lead on the economy as the economy began to improve in 2013 and subsequently, and that lead widened further as the parties approached the 2015 General Election. While we can only speculate about what a different Labour strategy during this period might have achieved, it is highly unlikely that the lead the Conservatives gained in 2010 could have been reversed between 2010 and 2015 in the absence of another major economic shock. Shocks tend to substantially alter party reputations for competence, and are unlikely to be fundamentally reversed in the course of 'normal' politics (Green and Jennings 2017). The impact of the crisis continued to damage Labour's chances as Labour went into the 2015 Election. Below we show that pre-2010 economic evaluations carried forward to shape vote choices in 2015, and one mechanism through which this happened was via Labour's competence on the economy. In line with conventional theories of economic voting, the main beneficiary of Labour's troubles on the economy was the main alternative party of government, the Conservatives. More unusually, however, from an economic voting perspective, a smaller party—UKIP—also benefited from Labour's economic difficulties. Like the Conservatives, UKIP picked up voters who thought the economy was struggling before 2010. What distinguished UKIP voters from Conservatives on the economy in 2015 was that UKIP voters did not see the economy getting any better.

Another reason the crisis continued to damage Labour, a full seven years later, is that the crisis dominated the competition between the major parties between 2010 and 2015. The shock of the financial crisis provided a significant political opportunity which the Conservatives took advantage of. It is important to note that, had the financial crisis not been such a salient and important economic and political shock, the potential for parties to mobilize public opinion and competition around it would have been lower.

Labour was increasingly blamed for the consequences of the financial crisis *after* the 2010 General Election—in particular for the level of UK debt. The crisis was used as justification for spending cuts aimed at reducing the size of the

national debt and cutting the budget deficit. This served to benefit the Conservatives, helping them stave off some electoral blame for the negative consequences of austerity, and it also placed Labour in a difficult strategic position. Labour could either admit that spending had been too high prior to 2010 and commit to the reduction of the deficit (thereby appearing economically responsible but supportive of the policies of austerity), or deny that the deficit was too high and argue against the necessity of austerity. Blaming Labour for the size of the national debt had a substantial impact on Labour's electoral support in 2015, even once we take into account Labour's earlier blame for the crisis. Furthermore, support for the Conservatives was greater among those who thought that austerity was necessary. We demonstrate below how both explanations provide a mechanism through which the long-term effects of pre-2010 economic evaluations influenced vote choices in 2015.

## 6.2 Estimating the long-term and short-term economic vote in 2015

To assess whether ratings of the economy *prior to 2010* (the evaluations closest in our dataset to the financial crisis) also had an impact on the 2015 General Election, we need to compare the effects of the 2015 economy on vote choice in 2015 (the short-term economic vote) with evaluations of the economy in 2010 on vote choice in 2015 (the long-term economic vote). Furthermore, in order to explain the long-term effects of pre-2010 evaluations, we need to assess the degree to which these effects run through the competence ratings of the Labour Party in 2015, blame for Labour's responsibility of the crisis in 2010 and Labour's responsibility for the level of UK debt in 2015, and the impact of voters' assessments of the necessity of austerity.

We use a dataset that follows respondents across both the 2010 BES internet panel and the 2015 internet panel to examine the long-term impact of voters' evaluations of the economy. The model we estimate is a multinomial logit model of 2015 vote choice among English voters.<sup>5</sup> The model estimates the likelihood of voting for each of the Conservatives, Labour, Liberal Democrats, UKIP, and the Green Party<sup>6</sup> as a function of retrospective socio-tropic (how well the national economy is doing) economic evaluations measured in 2010 and 2015.<sup>7</sup> We control

<sup>5</sup> For reasons of comparability we exclude voters in Scotland and Wales.

<sup>6</sup> For reasons of space we do not report the results for the Green Party, which were generally not substantially related to economic perceptions.

<sup>7</sup> The question asks 'How do you think the general economic situation in this country has changed over the last 12 months? Has it: 1) Got a lot worse, 2) Got a little worse, 3) Stayed the same, 4) Got a little better, 5) Got a lot better. Answers are taken from the pre-campaign wave of the 2010 BES Internet panel and wave 4 (also the pre-campaign wave) of the 2014–15 BES Internet panel.

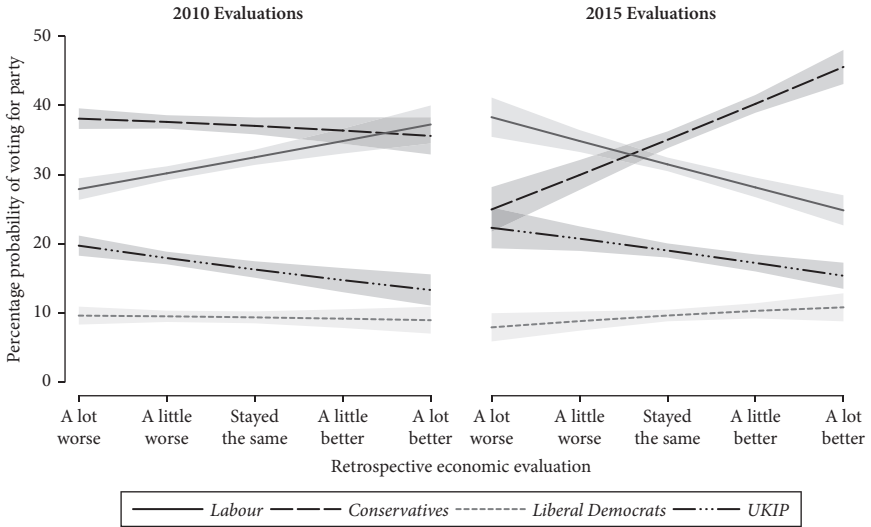
for respondent age, gender, income, education, economic left–right and liberal–authoritarian values (measured with IRT models, see Tables A6.1 and A6.2 in the appendix), 2010 immigration attitudes (Table A5.4 in the appendix), and 2010 and 2015 party identity strength, specified as alternate-specific predictors.<sup>8</sup>

The nature of the data means our analysis has some limitations. Variables that we would ideally have measured before the financial crisis, such as political values, are not measured until 2014–15 because these questions were not asked as part of the 2010 panel. Likewise, we include controls for partisanship measured in 2010 and 2015. The downside of this is that they could themselves be affected by the crisis. Economic values might change in response to the economic crisis (Gonthier 2017) and some voters might update their partisanship in response to political performance (Fiorina 1981). The inclusion of ‘downstream’ variables biases statistical estimates of effect size (Rosenbaum 1984). This is likely to lead us to *underestimate* the effect of economic evaluations. We cannot simply ignore these controls, however. The overwhelming weight of evidence shows that economic perceptions are highly coloured by partisanship (Wlezien, Franklin, and Twiggs 1997; Bartels 2002; Evans and Andersen 2006; van der Eijk et al. 2007; Evans and Pickup 2010; Pickup and Evans 2013; Healy et al. 2017).<sup>9</sup> Excluding these controls is likely to lead to a substantial *overestimate* of the effect of economic evaluations. We report the results from our models (see Table A6.3 in the appendix) with our most stringent set of control variables, and expect the results to represent the lower bound of the substantive size of effects.

Figure 6.1 shows the estimated relationship between 2015 vote choice and economic evaluations measured before the 2010 General Election, in the immediate aftermath of the crisis (left-hand side of Figure 6.1)—and economic evaluations measured before the 2015 election (right-hand side of Figure 6.1). The right panel shows a strong effect of 2015 economic perceptions that fits with a classic economic voting story: the Conservatives were rewarded for the perception of an improving economy, and punished if the economy was perceived as getting worse. Note also that, consistent with other research on coalition governments and economic voting (Duch and Stevenson 2013; Duch, Przepiorka, and Stevenson 2015), the Liberal Democrats get very little reward for an improving economy (see also Chapter 7). Conversely, we see the inverse relationship for the opposition parties. Voters who thought the economy had got worse were more likely to vote Labour. We also see

<sup>8</sup> By ‘alternate-specific predictors’ we mean that the party identity part of the model is specified such that a specific party identity only *directly* impacts on the probability of voting for that party (though it will still have an indirect effect on voting for other parties). For example, we estimate the effect of Labour Party identity strength on voting Labour rather than Conservative, but not on voting UKIP rather than Conservative.

<sup>9</sup> There is also some evidence that it is not just answers to survey questions that are coloured by partisanship but actual economic behaviour (Gerber and Huber 2009), although the veracity of this finding has been disputed (McGrath 2017).



**Figure 6.1** Predicted probability of 2015 vote choice by 2010 and 2015 economic evaluation

a similar slope—albeit at a lower absolute level—in the relationship between economic perceptions and voting UKIP.

Moving to the left panel, to the effects of pre-2010 economic evaluations, we see that economic evaluations measured *five years earlier* are still substantially related to 2015 vote choice. British voters in 2015 were not simply myopically voting on short-term economic changes that took place in the run-up to the 2015 election. Voters who thought the economy was doing badly in 2010 continued to punish Labour in 2015. What is perhaps most interesting, however, is that 2010 economic evaluations exert little influence on whether someone is likely to be a Conservative or Liberal Democrat voter. There is a relationship, however, between 2010 economic evaluations and the probability of voting Labour and the probability of voting UKIP. This pattern distinguishes the long-term economic vote we see here from the classic economic vote which sees economic voting as occurring between the two major alternative parties of government. The long-term economic vote benefited UKIP in the 2015 General Election.

The combined effect of both 2010 and 2015 economic evaluations is that Labour fared worst among those who thought the economy was doing badly in 2010 *and* who thought it was doing well in 2015. The Conservatives did best among those who thought the economy was doing well in 2015. The Liberal Democrats fared badly across the range of economic perceptions in both years. UKIP did best among those with the most pessimistic evaluations—those who thought the economy was doing badly in both 2010 *and* 2015.

It is also important to remember that it is not just the slopes of regression models that are important but also the distribution of the underlying variables.

In 2015 the British economy had begun to recover from recession, as inflation and unemployment both declined. At the same time, concerns over the economy abated (measured by the percentage of people listing the economy as the most important issue) and there was increasing economic optimism (Clarke et al. 2016). According to the BES panel data we are using here, the proportion of people thinking the national economy was getting better before the 2010 General Election was 23 per cent, whereas this figure was 46 per cent before the 2015 General Election.

How can we account for the persistence of this long-term economic effect in 2015? We identify three ways in which the shock of the economic crisis persisted into 2015—its effect on evaluations of Labour’s competence, attributions of responsibility for government debt, and attitudes towards the necessity of austerity.

### 6.3 The crisis as a competence shock

Public perceptions of governing competence are prone to change over the long-term in response to external shocks (Green and Jennings 2017). Figure 6.2 shows the percentage of people rating Labour and the Conservatives as ‘best’ on the economy, between 1990 and 2018. The Conservatives had been dominant on economic competence under Margaret Thatcher and John Major until Britain crashed out of the Exchange Rate Mechanism in September 1992 (‘Black Wednesday’), which acted as a major competence shock. The ERM crisis was followed by a period of division and damaging stories of sleaze for the Conservatives, and Labour’s reputation on the economy overtook that of the

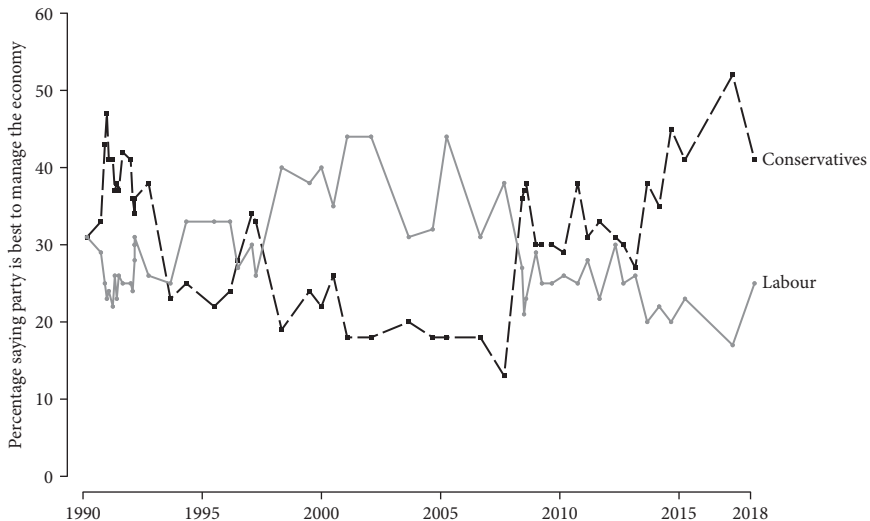


Figure 6.2 ‘Best party on the economy’, 1990–2018



Conservatives'. Under Tony Blair, and initially under Gordon Brown, Labour had a commanding lead over the Conservatives on the economy—a lead that lasted for around fifteen years and three general elections. Labour lost its lead in 2009 in the wake of the financial crisis and the subsequent Great Recession. However, the Conservatives' economic lead was not commanding until shortly before the 2015 Election (and then subsequently reached its maximum around the 2017 General Election).

The loss of Labour's reputation on the economy around 2009 was in some senses inevitable. As we argued above, Labour was bound to take some reputational damage simply by being in government during a profound economic crisis. Voters tend to punish incumbents irrespective of that government's actual ability to control a particular outcome (Achen and Bartels 2016). The Labour government's approach to the financial crisis was dramatic and—in some quarters at least—unpopular. Many found it difficult to understand how a government could afford to spend £500 billion on the financial sector that had just acted so irresponsibly. Furthermore, Labour had adopted a 'light touch' attitude towards regulation of the financial sector prior to the financial crisis. New Labour saw the City as an engine of economic growth which could be harnessed to benefit society as a whole—perhaps epitomised by Peter Mandelson's infamous remark that New Labour was 'intensely relaxed about people getting filthy rich as long as they pay their taxes'. Furthermore, Labour was being blamed for the crash by political opponents. Indeed, it 'proved to be a very potent message in the 2010 General Election, so much so that echoes of it were still being heard in 2015' (Clarke et al. 2016, 39). That is to say, the claim that Labour was to blame for the crisis was powerful in 2010 and it was still being made effectively in 2015.

To demonstrate the effect of competence as a mediating mechanism for the long-term effect of the economic vote in 2015, we add respondents' ratings of how well Labour would handle the economy in 2015 to our model of 2015 vote choice. Figure 6.3 reports the predicted probabilities of voting for each party in 2015 across the range of Labour's economic handling evaluations in 2015. We see a similar pattern to Figure 6.1: Labour was most likely to win votes from people who thought Labour would handle the economy well, whilst the Conservative and UKIP picked up votes from those who thought Labour would handle the economy badly. Adding the mechanism of competence to the model also substantially reduces the apparent effect of long-term 2010 economic perceptions on 2015 Labour vote choice.

Again, it is not just the slope of these lines that is important but the underlying distribution of responses. Figure 6.2, earlier, showed a stark change in how people felt about Labour's economic competence before and after the financial crisis. We can see just how important a difference this made to Labour's vote share in 2015 by showing the predicted probabilities of voting Labour at Labour's mean pre-crash economic handling rating, (measured at the pre-2005 BES wave) and Labour's mean economic handling in 2015 (from the pre-election wave in 2015).

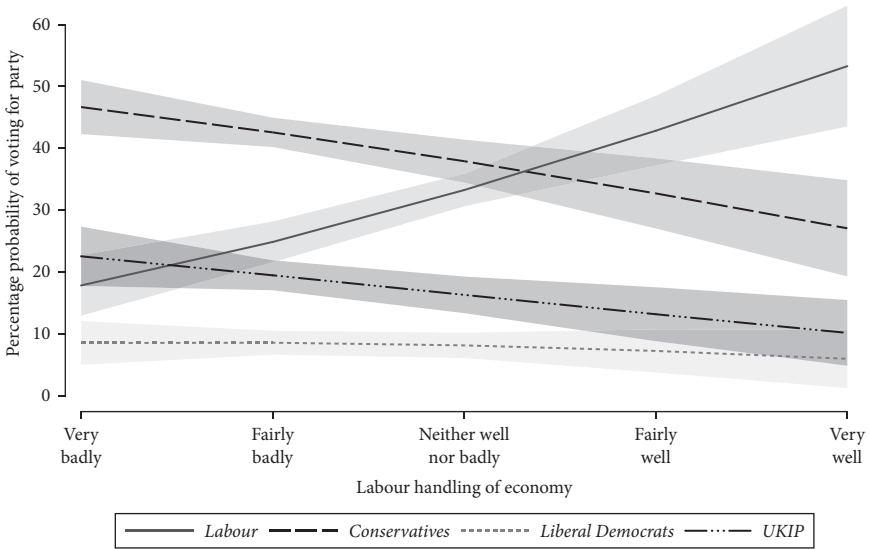


Figure 6.3 Predicted probability of vote choice by 2015 Labour economic handling

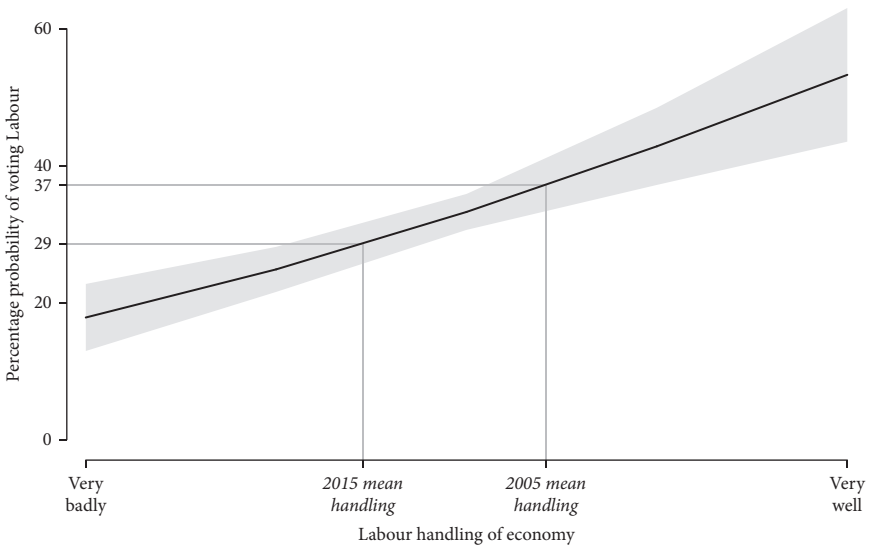


Figure 6.4 Predicted probability of voting Labour in 2015 by perceptions of Labour's handling of the economy, showing the 2005 and 2015 mean perceptions

This is shown in Figure 6.4. The predicted likelihood of voting Labour in 2015 is 8 percentage points higher at pre-crash values for economic competence than if we hold Labour's competence at post-crash values—a substantial difference.

We should be cautious in putting too much weight on this sort of counterfactual. We are not saying that Labour would definitely have tied the vote with the

Conservatives in 2015, or even beaten them outright, had its competence not been affected much earlier by the financial crisis. We can surmise that the Conservatives would not have emphasized competence as a campaign strategy if Labour's competence had not lagged behind the Conservatives'. The bases of voters' decisions are to some extent endogenous to party strategies: competence matters more in electoral choice when the question of competence is made salient by political events and actors (Green and Jennings 2017).

#### 6.4 The crisis as political opportunity

Political competition around the crisis dominated the politics of the period between 2010 and 2015. The Conservatives took two very clear positions: (i) that there was an urgent need to reduce the national debt and the budget deficit (the cost of borrowing for the level of public expenditure) and this meant that the government needed to pursue a range of difficult and painful austerity measures, and (ii) that these policies were necessary because Labour had been profligate in office, sustaining a dangerous level of spending, worsening the impact of the financial crisis on the British economy, and making austerity necessary. These political messages were not an inevitable outcome of the financial crisis and recession that occurred before 2010. They were a clear political strategy to increase the extent to which Labour was blamed for the level of UK debt, to harness the relative Conservative competence on the economy, and to rule out alternatives to austerity as a means of creating prosperity (Clarke et al. 2016). George Osborne (then Conservative Chancellor of the Exchequer) seized upon the political opportunity that had been created by the crisis. After Labour's 2010 defeat, Liam Byrne, Chief Secretary to the Treasury under Brown, left a note to his incoming successor in which he lamented: 'I'm afraid there is no money.' It had been intended as a light-hearted and friendly gesture (Byrne 2015) but the letter was repeatedly brandished by Conservative politicians during the 2015 Election campaign to underline their argument about Labour's profligacy in office. The Conservative campaign message as the parties approached the 2015 General Election was that the choice was one of 'competence versus chaos': competence under the Conservatives or chaos under Ed Miliband's Labour Party. A recurring theme was Labour's—and Ed Miliband's—unsuitability to govern given their previous handling of the economy.

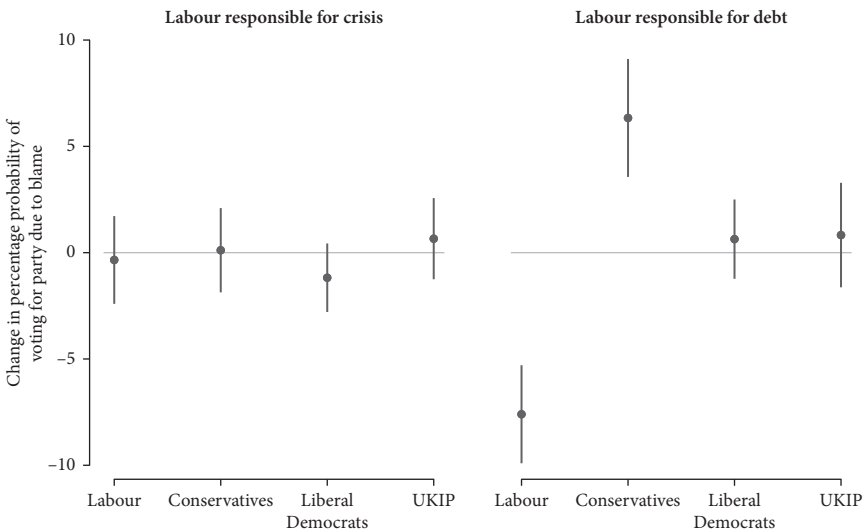
The politics of austerity placed Ed Miliband in a bind. He could either distance Labour from the spending decisions made by Gordon Brown and concede that the level of UK debt was too high (and by implication that it contributed to the size of the economic crisis in Britain), or defend the spending decisions of the Labour government to argue against austerity but run the risk of accepting blame for the level of UK debt. The Conservatives were able to capitalize on those difficulties.

## The blame game and austerity

Voters blamed a range of actors for the financial crisis itself. In 2010, 52 per cent of BES respondents thought international financiers were responsible, and 73 per cent chose to blame British banks. Relatively few people thought Labour was responsible for the crisis: only 39 per cent mentioned the Labour government and 36 per cent mentioned Gordon Brown specifically.<sup>10</sup> By 2015, however, Labour was widely seen as being responsible for the aftermath, with 55 per cent of BES survey respondents saying Labour was responsible for the level of UK debt.

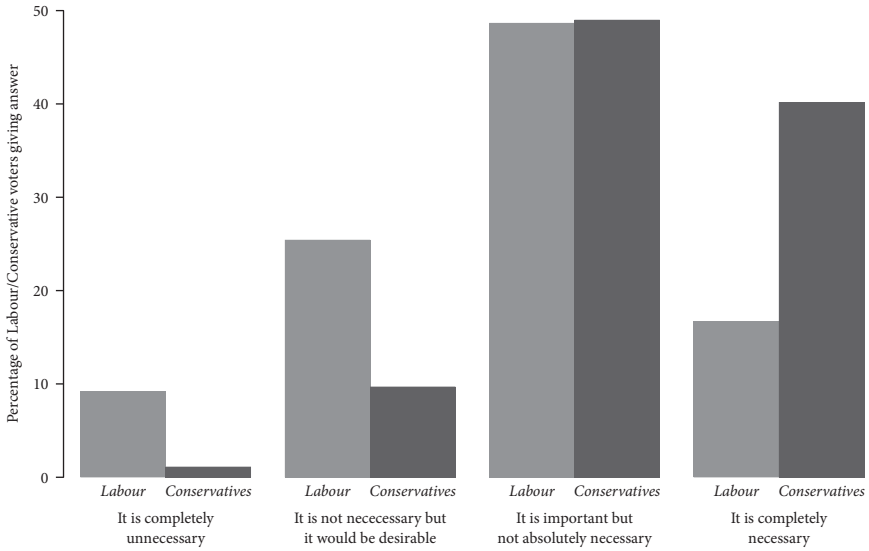
We examine the effect of apportioning blame to Labour by adding these variables to our model of 2015 vote choice. Figure 6.5 shows the marginal effects of blaming Labour for the crisis in 2010 and blaming Labour for the level of debt in 2015 on the probability of voting for each party in 2015. The left panel shows that there is no statistically significant effect of blaming Labour for the crisis. The right panel shows, however, that there was a statistically significant and large effect of blaming Labour for the level of debt. This operated to the detriment of Labour and the benefit of the Conservatives.

The perception that Labour were responsible for high levels of debt was a problem for Labour, but the politics of austerity were more complex than this simple story. As Figure 6.6 below shows, the vast majority of both 2010 Labour and 2010



**Figure 6.5** Marginal effects of blaming Labour for the financial crisis in 2010 and blaming Labour for the level of debt in 2015 on the probability of voting for each party in 2015

<sup>10</sup> Note that these figures represent the chance to 'tick all that apply', so respondents could say multiple actors were responsible.



**Figure 6.6** Necessity and desirability of reducing the national deficit among 2010 labour and Conservative voters

Conservative voters (and respondents overall) thought that eliminating the deficit was important. Even among 2010 Labour voters, very few (9 per cent) thought that eliminating the deficit was completely unnecessary.

In order to assess the effect of views about austerity, we combine answers to a number of questions about the necessity and method of cutting the deficit, and whether cuts to public spending, local services, and the NHS had gone too far using an IRT model (shown in Table A6.4 in the appendix).

We add this combined variable to our model of 2015 vote choice, again assessing the degree to which this explanation accounts for the long-term effect on the economy. Figure 6.7 shows the predicted probabilities of voting for each of the four largest parties across the combined measure. The more pro-austerity a respondent was, the greater the probability that they voted Conservative (and the more likely they were to vote UKIP), whereas Labour vote choice in 2015 was stronger among respondents who were more anti-austerity, even controlling—as we do—for left–right political values. This graph demonstrates the importance for the Conservatives of justifying their policy of austerity. Voters who were persuaded of the need of austerity were more likely to support the Conservative Party in 2015, an effect that had the potential to shift 2010 Labour voters as well as former Conservatives. Both of the effects we report here—for blaming Labour for the level of UK debt, and agreeing that austerity is necessary—are also significant in models only analysing 2010 Labour voters. That is to say, Labour’s support among those who voted for the party in 2010 was also reduced because of the message that Labour was responsible for the deficit, and because of

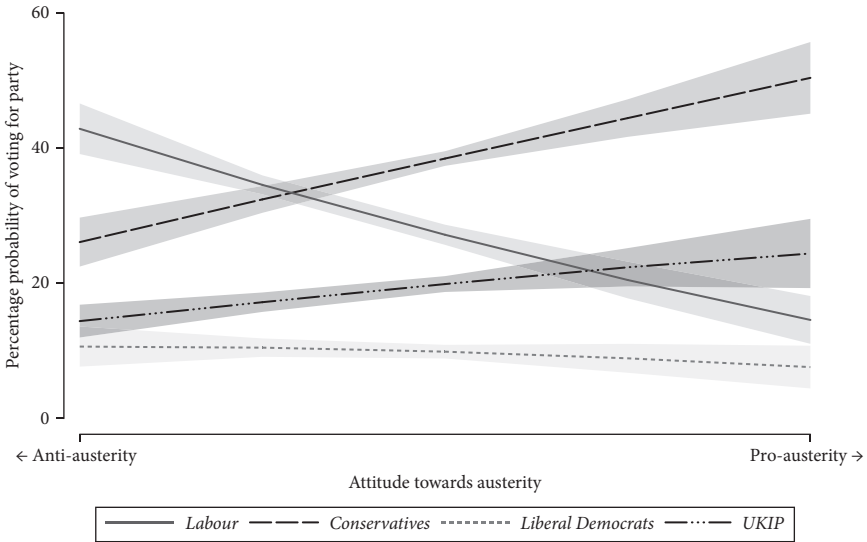


Figure 6.7 Predicted probability of vote choices by austerity attitudes

the belief that austerity was a necessary policy response. Both models suggest that these were additional effects resulting from the political competition around the crisis, changes in evaluation that took place between 2010 and 2015.

## 6.5 The Global Financial Crisis in a context of partisan dealignment

We note that the impact of the Global Financial Crisis was large and sustained because the shock was large and sustained. However, it also happened within a context of a more volatile electorate, less rooted to parties via strong partisan attachments. A simple illustration can serve to highlight this point.

Our story about long-term economic voting effects, of pre-2010 election economic evaluations on 2015 vote choice, is based, in part, on the long-lasting reputational damage of the crisis on Labour's economic competence. Figure 6.8 shows the relationship between party identity strength among 2005 Labour voters and evaluations of Labour's economic competence, in 2010. The weaker the identification in 2005, the less positive Labour's competence rating. If we imagine that more people fall into the right-hand side of Figure 6.8, it follows that Labour's economic competence would not have fallen back to the same levels as it did after 2010, and the Conservatives, on the flip side, would not have been as positive.

To summarize, if there were more party identifiers in the electorate, and more strongly identifying people among them, we can conclude that there would have

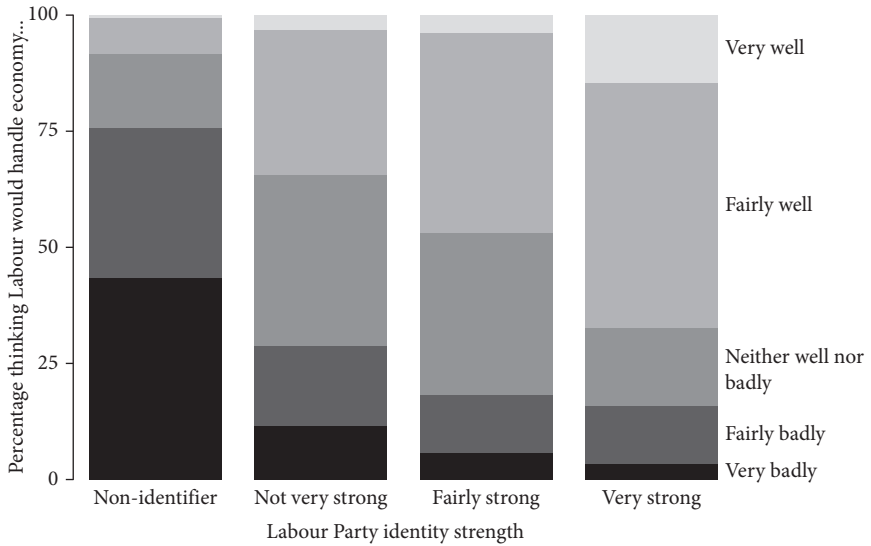


Figure 6.8 2010 Labour Party identity strength and Labour’s economic competence, 2015

been greater stability in economic evaluations and greater stability, therefore, in the response to the economic conditions that were precipitated by the Global Financial Crisis and great recession, and the subsequent political competition in response to them.

### 6.6 What about the 2017 General Election?

Only two years later, the importance of the Global Financial Crisis at the 2017 Election could not have been more different. As Figure 6.2 clearly showed earlier, Labour’s perceived competence on the economy continued to flounder. Indeed, the 2017 Conservative competence lead over Labour was even greater than it was in 2015. Despite this, Labour increased its vote share considerably in 2017. The key to understanding the 2017 Election is, as we discuss in more detail in Chapter 9, Brexit. Without pre-empting our discussion of the direct impact of the EU referendum on the 2017 here, it is important to understand how the aftermath of the referendum affected the ongoing influence of the financial crisis on vote choice.

The most obvious effect of the EU referendum is that Brexit rapidly displaced austerity as the key object of political contention. This happened in two ways. First, and most obviously, discussion about Brexit itself took centre stage as the country grappled with how it would leave the EU. Second, one early consequence of the vote to Leave was a loosening of austerity as the new Chancellor, Philip Hammond, dropped the target of putting the budget into surplus by 2020.

Meanwhile, under new leader Jeremy Corbyn, Labour took up active opposition to austerity, and with public support for austerity faltering, the Conservatives seemed reluctant to push the austerity issue in the 2017 Election campaign.

Brexit also affected the politics of the economy in 2017 indirectly. As we have already discussed, partisanship influences the way in which people perceive the political and economic world. As Figure 6.9 shows, after the referendum, whether someone voted Leave or Remain played a similar role. For the two years prior to the referendum, there is little to distinguish the mean retrospective economic evaluations of Leave and Remain voters; in the aftermath of the referendum, however, Remain voters became slightly more pessimistic about how the economy had *already changed*.

Together, these effects resulted in the rapid evaporation of the effects of the financial crisis on vote choice. Building on our previous model of vote choice, we now model the 2017 vote, adding 2017 economic evaluations to our model, and additionally controlling for 2017 party identity and the EU referendum vote (see Table A6.5 in the appendix). Figure 6.10 shows the predicted probability of voting for each party according to 2010, 2015, and 2017 economic evaluations. The right-hand panel shows that economic evaluations were still an important predictor of vote choice in 2017. However, the left and centre panels show that earlier economic evaluations were no longer significant predictors of vote choice in 2017.

Together, the different elections demonstrate that economic voting is not a static phenomenon that always has equal effects—or the same kinds of effects—in every election, nor is it necessarily a simple reward–punishment phenomenon

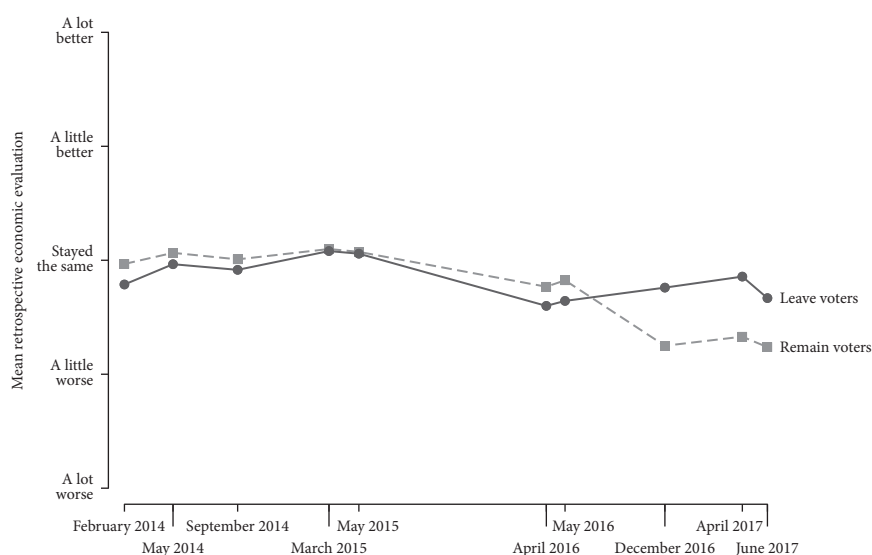


Figure 6.9 Retrospective economic evaluations 2014–17



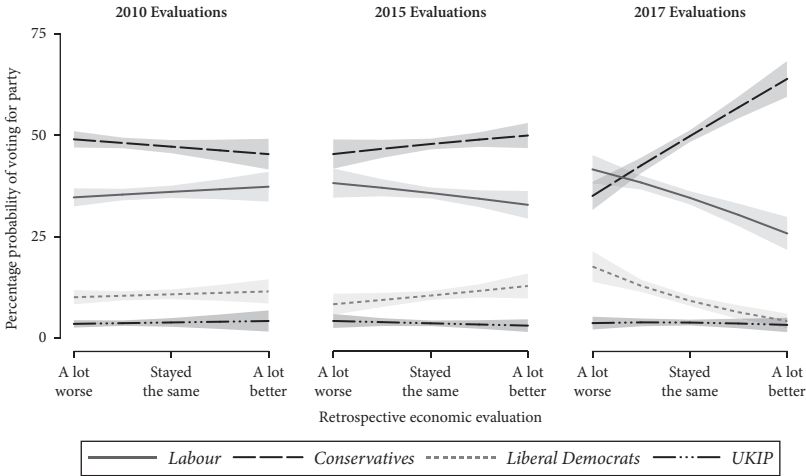


Figure 6.10 Predicted probability of 2017 vote choice by 2010, 2015, and 2017 retrospective economic evaluations

that responds to short-term economic considerations and political choices only in the context of one election. Shocks—and economic shocks—can have long-lasting electoral consequences, they can be magnified and accentuated by political competition, but they can also cause different considerations to be overwhelmed by new factors. This further points to a contextual understanding of political behaviour, and to the importance of better understanding the varied consequences of electoral shocks.

### 6.7 Conclusions

Shocks, if they shape elections, do not necessarily only have consequences in the immediate election following the shock. In this chapter we demonstrated that the Global Financial Crisis left a long-lasting mark on the way voters decided how to choose between political parties in a subsequent election: in 2015. Such was the size, magnitude, and salience of the financial crisis that voters carried forward their previous evaluations of the economy into their vote choice in 2015. Furthermore, because of the way in which shocks create political opportunities, Labour was further harmed in 2015 because voters blamed Labour for the size of the national debt and the necessity of austerity. The Conservatives were able to compete around the crisis, attributing blame towards Labour as well as benefiting from a short-term upturn in the economy that happened prior to the general election in 2015.

The implications of this chapter are important for understanding the economic basis of the outcome of the 2015 Election. It is not sufficient just to look to the

short-term nature of the economy to understand electoral choice in this election (or perhaps, in many other elections). While the improving economic conditions benefited the Conservatives in 2015, this has to be seen in the much larger economic context that continued to overshadow British politics and the memories of British voters. We also showed that the Global Financial Crisis, and its aftermath, was not only relevant to the votes for the two largest parties in 2015: Labour and the Conservatives. Our explanation also accounts for some of UKIP's success in 2015. UKIP benefited in 2015 from long-term economic evaluations prior to 2010, and from perceptions of Labour's economic (in)competence. That is to say, we find an effect of long-term economics on UKIP's vote share in 2015. In a system in which multiple parties compete for votes, not all 'performance'-based assessments will see vote-switching between the government and the main party of opposition, as traditional models of economic voting commonly assume. Minor parties can be outlets for dissatisfaction about economic performance, as UKIP was in 2015.

Our analysis, then, brings new insights to bear on the literature on economic voting. One such insight is how economics and economic performance can be a source of support for populist parties, such as UKIP. Another is how voters' economic assessments might have much longer consequences than has previously been assumed. The majority of the economic voting literature sees the economic vote as a short-term effect of recent economic evaluations on the outcome of an election.<sup>11</sup> However, emerging evidence for the nature of a longer-term economic vote (see Hellwig and Marinova 2015; Wlezien 2015) suggests that electorates can blame governments long into the future. One way this happens is via long-term disruptions to reputations for party competence (Green and Jennings 2017). A reputation, once lost, is very hard to recover, such that past governments can suffer an electoral penalty long after they have lost office. In this chapter we demonstrated the way in which political blame can accentuate, prolong, and even add new blame to parties that have previously been in government. The 'blame game' does not need to be understood as something that takes place at the time of a shock or a crisis. In the example of the Global Financial Crisis, the blame over the level of UK debt happened after the election in which Labour lost office (2010), and helped win the Conservatives the election in 2015.

Electoral shocks shape electoral behaviour in important, and potentially long-lasting ways. This chapter has demonstrated how shocks can remain relevant in public opinion and electoral choice long after they occurred. If a shock is sufficiently memorable and parties still compete around its legacy, then there is no reason to assume that voters will only blame a party or a government in one election. A large shock will not be easily forgotten—or forgiven. This might well be relevant

<sup>11</sup> A range of examples include: Kramer (1971); Tufte (1978); Lewis-Beck (1990); Campbell (1992); Alesina, Londregan, and Rosenthal (1993); Lewis-Beck and Stegmaier (2000); Duch and Stevenson (2008); Kayser and Wlezien (2011); and Achen and Bartels (2016).

for some of the other shocks that we document in this book, and in shocks that have yet to take place. If Britain leaves the European Union in such a way that there is a deeply felt economic cost, and if one party's reputation for competence is badly damaged, there is no reason to think that will not impact on the electoral behaviour of British voters for multiple elections. That is just one of the lessons we can draw from the long-lasting electoral impact of the Global Financial Crisis.