

Economic shocks and the cost of ruling: Evidence from Italy

Giorgio Malet and Hanspeter Kriesi

Published in JEPOP 2019

Do voters punish governments more severely during international economic crises or do they discount exogenous shocks as they recognize the government's limited 'room of manoeuvre'? The current literature provides conflicting answers to this question. This study argues that in such contexts citizens' economic perceptions are less likely to predict their sanctioning behaviour but that, nonetheless, governments experience a higher cost of ruling. We show that in the paradigmatic case of Italy, government popularity during the crisis, while being hardly explained by economic evaluations, suffers a stronger decline as a function of time in office. We account for this increased cost of ruling by economic policy debates and other political events, such as cabinet crises and large-scale scandals.

Keywords: government approval; economic voting; cost of ruling; political events; austerity policies.

Word count: 8139

Introduction

The literature on economic voting suggests that citizens hold their governments accountable for economic performances. In particular, according to the ‘grievance asymmetry’ hypothesis, voters are expected to sanction the incumbents for economic downturns more than they reward them for economic upturns (Bloom and Price 1975, Dassonneville and Lewis-Beck 2014, Nannestad and Paldam 1997). At the same time, previous research also shows that voters recognize the increasing constraints governments face under the pressure of financial markets and international institutions (Duch and Stevenson 2010, Hellwig and Samuels 2007, Lobo and Lewis-Beck 2012) and discount dire economic situations due to exogenous shocks (Kayser and Peress 2012). A period of intense economic turmoil with international ramifications may, thus, hamper citizens’ ability to sanction the government for the country’s economic performance. Yet, in the aftermath of the Great Recession, the electoral punishment of the incumbents has been massive (Bartels 2014, Hernández and Kriesi 2015), especially in the worst-hit countries of Southern Europe (Magalhães 2017), where the management of the crisis became the object of supranational interventions (Scharpf 2011).

In light of contrasting theoretical expectations, this study tries to solve this empirical puzzle by analysing citizens’ evaluations of the incumbent government during the unfolding of the crisis rather than just on election day. We show that citizens’ economic perceptions have a modest impact on government approval as they discount exogenous economic shocks. Governments, nonetheless, experience a higher cost of ruling as citizens tend to sanction their responsibility toward financial markets and supranational institutions. We argue that during eventful periods governments adopt highly mediatised and hotly debated economic policies that affect voters’ political attitudes more than the fluctuation of the economy. We thus turn from the real economy (output) to economic policy (input) in search of the aggregate-level economic vote. In addition, we consider other manifestations of poor performance that shape citizen evaluations such as cabinet crises and large-scale scandals.

The political developments occurred in Italy make the country a fertile ground to test our argument. After the 1994 political earthquake, valence politics has shown increasing effects on the electoral behaviour of Italian citizens, with economic evaluations as key determinants of vote choice and government approval (Bellucci 2012, Bellucci and De Angelis 2013). More recently, Italian politics has been again turned upside down. Not only did the financial crisis have devastating consequences on the country's economic outlook, it also strained the ability of Italian governments to cope with the threat of bond markets and European constraints. An analysis of Italian voters' reaction to the Great Recession could thus be most revealing as to what we can expect from citizens' political behaviour in hard times.

Economic voting in times of crisis: grievance asymmetry or blurred responsibility?

The impact of the economy on government popularity and incumbents' support has been the subject of extensive scholarly debate. However, previous studies offer contrasting expectations about the influence of economic crisis on vote/popularity functions. One of the main tenets of the literature on economic voting states that citizens tend to punish their government for economic downturns more than they reward it for economic upturns – a phenomenon mostly known as 'grievance asymmetry' (Bloom and Price 1975, Nannestad and Paldam 1997). This claim is based on three related arguments: *(i)* citizens tend to give greater weight to negative than to positive information (Lau 1985); *(ii)* as negativity has a stronger impact than positivity, voters tend also to pay more attention to bad news (Soroka 2006); *(iii)* the heightened media salience of economic issues in times of crisis increases the impact of the economy on vote choices (Singer 2011). Although in a previous assessment Lewis-Beck and Stegmaier (2013) concluded that evidence on the asymmetry hypothesis was mixed, a recent test shows that during 'economic crisis, GDP growth relates more strongly to incumbent vote support' (Dassonneville and Lewis-Beck 2014, 377).

However, existing theory also predicts that voters tend to discount exogenous shocks due to trends in the global economy, as they benchmark national economic growth against that abroad (Kayser and Peress 2012). The assumption is that voters recognize the government's limited room to steer the country's economic fortunes when these are visibly tied to global markets' drifts. A large number of comparative studies has emphasized the impact of economic openness on the strength of the economic vote (e.g., Duch and Stevenson 2010, Hellwig and Samuels 2007). In the case of Europe, the existence of supranational monetary institutions further blurs the attribution of responsibility, as individuals that consider the EU responsible for national economic policy, hold the government less responsible for economic performances (Lobo and Lewis-Beck 2012).

These results highlight two important political factors that may have decisively blurred clarity of responsibility in the European countries that were most hit by the crisis. The first factor concerns the supranational interventions to which all Southern European countries were subjected (Scharpf 2011). The interferences in the management of the crisis constrained the governments' manoeuvring space and allowed incumbent parties to play blame-shifting strategies. The second factor is the appointment of technocratic governments. In Italy, for example, the interlude of the Monti government allowed the parties to distance themselves publicly from the harsh measures imposed by the technocratic cabinet while supporting it in parliament (Bellucci 2014). Therefore, we argue that when the pressure of financial markets and supranational institutions limit governments' ability to handle the economy, voters' economic perceptions are less likely to predict their sanctioning behaviour.

H1 (economic voting hypothesis): The effect of citizens' economic perceptions on government approval decreases in times of economic shocks.

Not only did financial and supranational constraints restrict the range of policy options, they also had consequences on public attitudes. As citizens perceived their own lack of choice to decide between policy alternatives, they became more dissatisfied with the functioning of their political system (Ruiz-Rufino and Alonso 2017). This suggests that, even if citizens found it difficult to attribute responsibility for the dire economic situation, they may have blamed their national government for choosing to be responsible toward the financial markets instead of responding to the electorate's need (Mair 2013). Citizens' negativity bias did not strengthen economic voting, but resulted in an increasing cost of ruling for incumbent governments.

H2 (cost of ruling hypothesis): The negative impact of time in office on government approval increases in times of economic shocks.

The decline of support for incumbent governments is one of the few established law of politics. However, it is still unclear why ruling is costly. Green and Jennings (2017) argue that governments experience a honeymoon period in their first months in office when responsibility is attributed to the outgoing government. From there on, when the incumbent starts to be blamed, a negativity bias operates so that 'negative evaluations of competence are weighted more than positive evaluations, akin to the 'grievance asymmetry' argument of Nannestad and Paldam (2002)' (Green and Jennings 2017, 175). As negative information piles up, blame displays a cumulative effect. Economic crises such as the Great Recession are eventful periods. Salient political events operate as 'information shocks' that update voters' prior political beliefs. If cost of ruling is produced by the accumulation of negative evaluations of incumbent's performance, the greater importance of some performance signals can explain its increased effect in times of international economic crises. In the next section, we suggest that policy debates and political events operate as such performance signals and can account for the increased cost of ruling governments experience in times of crisis.

The role of policy debates and political events

A period of economic turbulence with international ramifications presents a difficult cognitive environment for voters to assign responsibility to incumbent parties and judge them solely by their economic record. By contrast, the crisis compelled governments to adopt highly mediatized and hotly debated economic policies that reached and resonated with a wider segment of the electorate than the fluctuation of economic variables. In this study, we thus turn from the real economy (output) to economic policy (input) in search of the aggregate-level economic vote. In addition to policy debates, we consider other manifestations of poor performance that shape citizen evaluations such as cabinet crises and large-scale scandals.

Lewis-Beck et al. (2013) argue that economic voting should not just be about valence, i.e. about economic performance, but should extend to the voter's position on economic policy and to what they call a 'patrimonial' dimension. Citizens punish and reward incumbents on the basis of economic performance, but they also rely on other aspects of the economy when making their choices. They assess central aspects of economic policy, and the positions they take also shape their political preferences. We suggest that policy-oriented economic voting may be a substitute for performance-oriented economic voting. When it is difficult to attribute responsibility for economic performance, the voters may fall back on policy-oriented economic assessments.

We are interested in the effect of two sorts of economic policies that governments undertook in the wake of the recent economic crisis and their impact on government approval – stimulus measures and austerity measures. As is well known, in their first reactions to the Great Recession, most governments adopted fiscal expansionary measures relying on some version of 'liberal' or 'emergency Keynesianism' (Pontusson and Raess 2012). As the crisis continued, governments turned to austerity measures. It was the Greek crisis erupting in early 2010 that initiated this change of policy. From then on, austerity policies including deep cuts in government expenditures, tax increases, and structural adjustment programs (above all labour market reforms and deregulations of some selected sectors) became the only game in town.

Stimulus measures can be expected to increase the government's popularity. By contrast, the existing literature turns out to be surprisingly inconclusive about public preferences towards fiscal consolidation or austerity. Views that voters support higher government spending due to self-interest (e.g. Golden and Poterba 1980) contrast with an increasingly popular view that voters are fiscally conservative and that governments can pursue fiscal consolidation without being punished by the electorate (Blinder and Holtz-Eakin 1984; Peltzman 1992). These findings supplemented Alesina's 'expansionary fiscal contraction' thesis (Alesina et al. 2012): not only can fiscal consolidations have an expansionary economic effect, but these consolidation initiatives are also rewarded by voters.

Yet, Armingeon and Giger (2008) show that the effect of welfare state retrenchment on election outcomes is conditional on whether or not it is a salient topic during the election campaign: it has a negative effect only when the issue is salient during the election campaign. This is to suggest that the policy-oriented economic assessments of the government depend on the salience of the government's decisions. It is plausible to assume that highly salient decisions will have an immediate and possibly longer-term impact on the government's popularity. It is important to add that, in times of crisis, the effects of fiscal consolidation measures may become more salient. Talving (2017) has shown that, during the Great Recession, incumbents have been punished for austerity measures and she concludes: 'Turbulent times have resulted in citizens observing government economic policy decisions more closely and using this information to form their judgments on leaders' economic competence' (Talving 2017, 573).

Following Talving's lead, we expect austerity measures to have a detrimental effect on the incumbents' electoral chances. By reducing government spending and increasing taxation, most attempts of fiscal consolidation place the burden of economic adjustment on the population. Moreover, austerity is often combined with structural reforms, which further causes economic strain for a substantial part of the population. We expect that voters punish governments that

implement austerity and structural reforms. Two examples from the Great Recession are provided by the Irish and Greek cases (Marsh and Mikhaylov 2012, Kosmidis 2014).

H3 (stimulus measure hypothesis): Fiscal expansionary policies have a positive impact on government approval.

H4 (austerity policy hypothesis): Austerity policies and structural reforms have a negative impact on government approval.

When the responsibility for economic performance is blurred, voters may not only rely on policy-oriented economic voting, but it is also possible that government popularity may become dependent on entirely non-economic developments. As a possible alternative to policy-oriented economic voting, we consider political events such as scandals and cabinet-crises, which have been particularly salient during the Great Recession in the case of Italy. For other cases, different alternative political events might be considered.

Scandals are expected to harm governmental (presidential) approval more when the economy is weak (Carlin, Love, and Martínez-Gallardo 2015). However, different types of scandals have a different impact. Financial scandals are likely to be more damaging to government (presidential) approval than moral scandals, unless abuse of power is involved (Doherty, Dowling, and Miller 2011). In the case of Italy, all scandals were related to the figure of Silvio Berlusconi, and were either financial or moral, with the latter involving some kind of abuse of power.

H5 (scandal hypothesis): Scandals have a negative impact on government approval.

As for the impact of cabinet crises, scholars have mainly focused on ministerial resignations in two-party systems. For example, ministerial resignations in the UK have been

found to provide a corrective effect on government approval, after accounting for the effect of the scandals that produced them (Dewan and Dowding 2005). However, in multiparty systems, ministerial resignations may be caused by broader disagreement in the governing coalition. Under such circumstances, cabinet crises may signal to some partisan voters that the government is not their government anymore. Accordingly, we expect cabinet crises to be detrimental to government approval.

H6 (cabinet crises hypothesis): Cabinet crises have a negative impact on government approval.

Data, operationalisation, and methods

This study is divided in two parts. The first one covers a period of nineteen years from May 1996 to December 2015 to analyse the effect of citizens' economic perception on governments' popularity in ordinary times and during the Great Recession. In the second part, the focus is restricted to the crisis' years to analyse the impact of policy debates and political events.

Figure 1 presents the two time series that will be used in the first part.

<Figure 1>

Government approval is measured as the percentage of positive answers to the following survey question: 'How would you evaluate the work of the government until now? Very positive, positive enough, negative enough, completely negative.'¹ Government approval is typically

¹ We obtained part of the data on government popularity from Bellucci and De Angelis (2012), whose original sources were the polling companies ISPO and IPSOS. We updated their time series with data collected on the institutional website www.sondaggipoliticoelettorali.it. Data collection was carried out by Computer-Assisted-Telephone-Interviewing. Missing values amounted to 11.4 percent. Most of them concern the month of August and those months when a resigning government was not immediately substituted by a new government. We used a Kalman smoothing for imputation. Figure A1 in the online appendix shows the distribution of missing values.

characterized by a strong autoregressive component. Our series of government approval is stationary (Dickey Fuller test = -4.765, p-value = 0.001) and follows an auto-regressive process with one lag (AR1). We have also tested for unknown breaks in the series by applying a set of tests. The procedure proposed by Bai and Perron (1998) suggests that there are no breaks in the series. However, as a recursive F-test suggests a break for the Monti government, we control for the political leaning of every government: left-wing (the reference category), right-wing (i.e., Berlusconi), or technocratic (i.e., Monti).

For citizens' economic perceptions, we use the *deseasonalised* economic sentiment indicator provided by the Italian statistics bureau (Isae/Istat). It is a composite indicator made up of nine confidence indicators obtained from monthly surveys of households. These indicators tap prospective and retrospective evaluations of the general economic situation, expectations on unemployment, prospective and retrospective evaluations on households' financial situation, current opportunity and future possibility of savings, current opportunities of durable goods purchases, assessments on family budget.² The series is not stationary, as is indicated by the results of Dickey-Fuller test (test statistics= -1.881, p-value = 0.3412). This is why we use the differenced indicator, which, indeed, is stationary. In other words, we analyse how monthly changes in economic sentiment influences the approval ratings.

To test the first two hypotheses, we analyse whether the relationship between economic evaluations and popularity holds if we split the sample at the start of the crisis, and whether the negative effect of a time trend is stronger during the crisis. We choose to set the cut-off on September 2008 when the fall of Lehman Brothers made clear the international ramifications of the subprime crisis. These models are estimated by straight-forward OLS-procedures (De Boef and Keele 2008).

² More information on the Economic Sentiment Indicator, including the exact wording of the survey questions, can be found on the Istat webpage: <http://siqua.istat.it/SIQual/visualizza.do?id=8888944>.

In the second part of the paper, we study the impact of political events during the crisis and the first question is how we can identify the most consequential events. Our key methodological hunch has been to use the international press to identify the relevant events. The idea behind this hunch is that the international press, given its limited ‘carrying capacity’, has to be selective and will report on a given country only under exceptional circumstances (Hilgartner and Bosk 1988). This apparent disadvantage constitutes a decisive methodological advantage. Given that we are looking for events that made a difference in the political life of the country, we have collected data on political events in Italy in three international sources – the Financial Times, the New York Times and the Swiss NZZ.³

For the analysis of the events, we rely on a combination of a qualitative and a quantitative approach. We selected the candidates for key events based on the analysis of the list of events resulting from our analysis of the international press and our qualitative knowledge of the case. In each category – policy debates, scandals, cabinet crises – we selected the events with the largest number of mentions in the international press (see *Table A1* in the online appendix). For the quantitative tests of the impact of events on government approval, we shall adopt the customary practice to rely on dummies. Among the several models underlying the use of dummies, a temporary step-shift model shall be adopted, in which *a given event influences the approval of the government until its resignation*. In temporary step-shift models, dummies are operationalized by 0’s prior to the event, 1’s for the period starting in the month of the event and until the end of the government to which the event relates, and again 0’s until the end of the series.

The use of dummy variables to indicate the effect of events runs into four types of problems. First, there is the problem of omitted variables. Having already accounted for the only significant break in the series, the shift related to the Monti government, and having shown that

³ We chose three international high quality newspapers which have Italian correspondents, which have a strong interest in reporting on economic policy and which are written in an accessible language.

there are no other breaks in the series, we can test whether the political dummies have an incremental explanatory power (Caporale and Grier 2005, 85). Second, the introduction of a series of dummies for specific events is susceptible to the problem of overfitting. When the time series is rather short, there may not be enough information in the data for more than only few parameters. We deal with this problem by constructing composite indicators for each type of event. These measures are equal to 1 for the months from the occurring of the first event to the end of a given government, and to 1.5 for the months from the occurring of the second event (if there is one) to the end of the respective government. The second event is weighted less heavily than the first one, assuming that the shock to the public of the first event is greater than the shock of the second one. Moreover, there may also be a floor effect, i.e. as a government's popularity has been wearing down it is approaching its equilibrium value, which means that additional events will have only a limited effect.

Finally, the effect of the events we focus on may not be clearly separable from each other. Different types of events may coincide or interact in time. There is no hard and fast solution to this problem. *Tables A2* and *A3* in the appendix show the pairwise correlations among individual events and event indices. The strongest correlation occurs between scandals and cabinet crises, and is mainly driven by the cabinet crisis pushed by Fini. Scandals are also correlated with austerity measures insofar as they occur almost contemporaneously at the end of the Berlusconi government. To address these concerns, we analyse the impact of different types of events in separate models. The details of the narratives that accompany the models supplement the weakness of the statistical analysis and clarify the mechanisms at work.

Unlike the models of the first part of this study, in the second part we do not include a trend dummy but we control for the honeymoon only: this takes the value of 1 in the month of the appointment, and 0 otherwise. As argued above, cost of ruling can be explained by two elements: the initial honeymoon and the accumulation of negative evaluations. The time trend captures both elements, while the honeymoon dummy captures only the former. This is why in the first part of

the analysis we introduce the time trend, while in the second part, when the accumulation of negative evaluations is modelled with our political events, we only include the honeymoon dummy as control. Indeed, the time trend is correlated with both the honeymoon and almost all the event variables.

The impact of the Great Recession

Italy experienced a ‘double-dip’ recession. First, like all the other European countries, it took a heavy hit in the aftermath of the fall of Lehman Brothers in September 2008, from which it recovered rather rapidly, like the Northwestern European countries. In the third quarter in 2011, however, the economic sentiment started to decline, and the real economy did so, too. Thus, the first recession and recovery characterize the Berlusconi government, but towards the end of his reign the economy turned bad again. From the end of the Monti government and throughout the brief period of Letta’s government, the economy improved, only to fall back again into a period of stagnation during the period of the Renzi government covered in this study.

The economic sentiment indicator clearly shows the double-dip recession (*Figure 1*). Already a comparative inspection of the two series in *Figure 1* suggests that the government’s popularity has hardly been affected by the economic development during the crisis period. Berlusconi got rather unscathed through the first part of the Great Recession. In the midst of the recession, Berlusconi’s party won two regional elections in fall 2008 and the European elections in June 2009. Berlusconi’s approval ratings only started to fall seriously in early 2010, when the economy actually improved. When the economy started to enter into the second recession in summer 2010, Berlusconi’s approval ratings had already fallen to low levels.

As we see, Monti at first enjoyed an enormous popularity, although the economy was doing badly. However, his ratings declined rapidly as the economy entered into the double-dip

recession and his government adopted a series of highly unpopular austerity measures. At the end of Monti's interregnum, with the coming to power of the Letta government, the second recession was coming to an end, and the economic sentiment index was improving. In spite of the economic recovery, Letta's approval ratings fell immediately after taking office, unrelated to the economy. With Renzi, finally, even if the economy did not improve significantly, the economic sentiment indicator skyrocketed beyond pre-crisis levels. Nonetheless, Renzi's approval ratings started a precipitous decline.

A more formal test confirms that the economy can hardly explain the development of government approval during the crisis. *Table 1* presents three models. The first covers the full period (1996-2015), while the other two cover respectively the period before the crisis and the crisis period. The coefficient for the economic sentiment indicator is significant for both the full period (Model 1) and the pre-crisis period (Model 2), and the latter is slightly stronger. By contrast, in the crisis model (Model 3) the effect of economic perceptions is not significant at all, while the trend variable for time in office exerts a much stronger impact on approval ratings (more than ten times stronger compared to the pre-crisis model). These results lend support to hypotheses 1 and 2.⁴

<Table 1>

The impact of policy debates

Although it did not have much of a direct effect on the government's approval ratings during the Great Recession, the economy may well have had an indirect effect, mediated by public policies. By forcing the government to adopt highly unpopular policies, the economy may

⁴ As robustness check, we also employed a "segmented trends" model whereby approval ratings are governed by a two-state, first-order Markov switching process. The results presented in the online appendix further confirm hypotheses 1 and 2.

still have been the ultimate driver of government approval ratings. Once the Great Recession had hit Italy, Berlusconi's government like all other European governments proceeded to adopt stimulus measures to overcome the crisis. The first stimulus package was already adopted in October 2008, the last set of measures dates from summer 2009. Like most other governments, the Berlusconi government also changed track in the shadow of the Greek crisis. On May 17, 2010, at the time of the first Greek bailout, the Financial Times titled: 'Berlusconi volte-face shocks Italy'. While Berlusconi had won elections two years earlier with promises to cut taxes and get Italy back on its feet, he now told Italians that they also needed to feel the pain of austerity to plug a forecast €25bn hole in the government budget by 2012. In spite of the resistance from the street, the first Berlusconi austerity package was passed in a vote of confidence in July 2010.

One year later, in summer 2011, at the time when the second bailout package for Greece was agreed upon, fears of contagion exploded and Italy became the object of 'implicit conditionality'. The government presented plans for additional cuts in May 2011, but repeatedly put off decisions, backtracked and continued the discussion throughout the summer. External pressure (notably from the ECB but also from other European governments) became even more intense as Italy was hit by a financial storm. After the Senate finally approved a package of austerity measures on November 12, Berlusconi stepped down and was replaced by the technocratic Monti government which received the support of both his party and the left-wing PD.

Monti came to power on a wave of popularity. However, his honeymoon quickly ended as he presented his emergency budgetary measures and structural reforms referring mostly to the tax system and the pension system. After a week of stormy debates Monti's emergency measures were supported by a grand coalition of most major parties. After the mostly failed attempt to liberalize some professional orders, the final act in Monti's reform effort came in March 2012, when he presented his proposals for the liberalization of the labor market. A softened version of

the proposal was adopted in June 2012. From that point on, austerity no longer dominated the agenda of Italian politics. Only the issue of labor market reform was taken up again by the Renzi government. Against fierce resistance from the union, whose large-scale mobilizations in the fall of 2014 Renzi chose to ignore, the so-called ‘Jobs’ Act’ was adopted in spring 2015.

To capture the impact of these major policy debates, we introduce a series of temporary step-shift dummies, one each for *Berlusconi’s stimulus packages* (starting in October 2008), *Berlusconi’s first austerity program* (starting in May 2010), *Berlusconi’s second austerity program* (starting in May 2011), *Monti’s austerity program* (starting in December 2011, just one month after his accession to power), *Monti’s labor market reform* (starting in March 2011), and *Renzi’s labor market reform* (starting in October 2014). *Table 2* presents the effects of the various policy debates. Model 1 includes step-shift dummies for all six policy debates. Four of these debates (the initial stimulus package, the austerity packages under Berlusconi and Monti and Renzi’s labor-market reform) have a significant effect on government approval.⁵ The most important effect is that of Monti’s first austerity package. This effect largely undoes Monti’s initial popularity. Once the public realizes what the Monti government had in mind, Monti’s popularity is no longer exceptional. Replacing the individual dummies by the *summary indicator for austerity measures and structural reforms* simplifies the pattern of effects. The average effect of austerity debates remains substantial (roughly -7.5 percent in the approval rating for the first package and -11 percent for the combination of two packages). The resulting model suggests that the Great Recession’s effect on government popularity was above all mediated by the policy measures it imposed on the Italian government.

⁵ To be sure, also Berlusconi’s second austerity package and Monti’s labor market reform have a significant negative impact when introduced in a model respectively without Berlusconi’s and Monti’s first austerity package (results not shown). The closeness of the two sets of reforms does not allow us to evaluate their cumulative effect.

<Table 2>

The impact of scandals and cabinet crises

Italian politics throughout the period covered cannot be understood without taking into account the many scandals created by Silvio Berlusconi. These scandals run like a subtext across the politics of Italy during this period. They made the international press in 50 percent of the months of the Berlusconi IV government, and in still 36 percent of the months of his successors. Among the large number of scandals related to Berlusconi, three notably stand out – the so called Rubygate, the question of Berlusconi immunity, and the case of tax fraud.

Chronologically, the immunity issue came first. On September 18, 2009, Italy's Constitutional court ruled that the law which was regulating the penal immunity of Berlusconi was in breach of the principle that all Italians were equal before the law. The ruling was a stunning blow for Silvio Berlusconi, who had been dogged for decades by legal problems. In November Berlusconi presented a judicial reform bill that would reduce the length of Italy's long trials, including his own – a sort of indirect amnesty law for him. The draft law was met with immediate protests in the street, and was also contested within Berlusconi's own party giving rise to conflicts with Fini.

Rubygate, the most spectacular scandal, broke the news on October 30, 2010. Berlusconi had been paying a Moroccan prostitute Karima El Mahroug, also known by the stage name of Ruby Rubacuori (Italian for 'Ruby the heartstealer'), for sexual services earlier in 2010, when she was under the age of 18. In May 2010, when Ruby had been arrested by the police, Berlusconi intervened several times per telephone on her behalf, using trumped up assertions (he asserted that she was Mubarak's niece) in order to get her free. After the affair broke into the public, it intensified the cabinet crisis that had already been festering.

The Berlusconi IV government was, indeed, characterized by a series of tensions between Berlusconi and Gianfranco Fini, the former leader of AN. The rift between the two became serious in April 2010, when Fini criticized Berlusconi for being too close to the Lega Nord, his coalition partner. On July 30, 2010, the conflict between the two led Fini to create a new party of his own. After this initial break, the crisis between the two escalated with Fini asking Berlusconi to step down.

The tax fraud scandal played out mainly under the post-Berlusconi governments. The tax fraud in question relates to Berlusconi's Mediaset corporation and amounted to a sum of more than €62 million. In October 2012, Berlusconi was convicted in this case and sentenced to four years imprisonment. He was also banned from running for public office for a five-year term. In reaction to this series of events, Berlusconi threatened to topple the Monti government. He soon made his threats come true and pulled the plug on Monti in December 2012. As a result, Monti handed in his resignation and his government became a 'nonpartisan caretaker' until the parliamentary elections in February 2013 and the formation of the new government in April 2013.

The new Letta government was led by the PD, but needed the support of the PdL, because it had not obtained a majority in the Senate, Italy's second chamber. In September 2013, as a reaction to his final conviction in the tax fraud case, Berlusconi withdrew his ministers. In reaction to this step, the centre-right split. While Berlusconi recreated his former party Forza Italia, Alfano and his allies founded a new party which continued to support the government.

<Table 3>

Table 3 presents the empirical test for the impact of scandals and cabinet crises. In model 1 we introduce two temporary step-shift dummies to account for the Berlusconi scandals, one each for the *immunity scandal* (starting in October 2009), and for *Rubygate* (starting in November 2011). As it turns out, only the scandal relating the Moroccan prostitute has a significant effect on Berlusconi's approval. As the facts presented in the narrative above suggest, this scandal was not

without consequences as it intensified the crisis of Berlusconi's cabinet. In model 2, we thus introduce temporary step-shifts for the *Fini crisis*, *Berlusconi's provocation of the demise of Monti's government* (including the caretaker government) as well as for the immediate paralysis of the Letta government, starting directly after the honeymoon (*Letta1*), and for the crisis provoked by the split in the centre-right (*Letta2*). Two of these crises had a significant negative effect on government approval: the crisis pushed by Gianfranco Fini and the crisis that ended the Monti government. While the two crises involving the Letta government do not capture the rapid decline of its popularity, the synthetic indicator for cabinet crises prove to be a significant predictor in Model 3. The scandal index, instead, is not significant.⁶ These results provide mixed support for hypotheses 5 and 6. Some political events did affect the popularity of Italian governments, but others did not.

Table 4 presents our final models. Based on model 1, which includes the stimulus indicator and the two relevant indices (austerity and cabinet-crisis index) in addition to the controls and the lagged dependent variable, we can calculate the long-term effect of the various factors. To do so, we need to divide its coefficient(s) by $(1-\alpha)$ where α is the effect of the lagged dependent variable. We calculate that the first austerity package in a given government cost it on average 14 percent in terms of approval ratings. Governments which adopted two packages, as is the case with Berlusconi's and Monti's government, lost 21 percent of approval in the process. By contrast, Berlusconi's government benefited to the tune of 6 approval points from its stimulus packages. The average cost of a cabinet crisis for a government is 7 percent. In model 2, we substitute the honeymoon dummy with the trend term for time in office to test whether political events do capture the cost of ruling during the Great Recession. Our modelling strategy proves to be convincing. If we compare this final model with model 3 in *Table 1* we show that policy

⁶ The synthetic indicators for scandals is not significant even if introduced without controlling for cabinet crises (results not shown).

debates and cabinet crises account for two thirds of the cost of ruling in times of economic shocks. Finally, we introduce again the economic sentiment indicator. Economic perceptions do not turn out to be significant even after controlling for events.

<Table 4>

Conclusion

The starting point of this study has been a theoretical puzzle as to what we can expect from citizens' sanctioning behaviour in times of international economic crises. We have proposed and empirically tested a mechanism that can account for both the limited impact of economic evaluations on government popularity and the increasing cost of ruling incumbent governments experience after exogenous shocks. We have argued that during eventful periods such as the Great Recession we need to turn our attention to 'performance signals' that resonates more than the monthly fluctuations of the economy. Therefore, we have tried to account for the government's approval rating by political events and we have found that there are at least four types of events that have contributed to the ups and (mainly) downs of the government's popularity: stimulus packages, austerity packages, cabinet crises, and the ever present vicissitudes of Silvio Berlusconi's wheelings and dealings. The most important effect is exerted by the austerity policies which successive governments adopted in the shadow of the Great Recession. Even if the economy did not have a direct impact, the popularity of Italian governments has been to a large extent dependent on the political mediation of the economic crisis.

This study comes with certain limitations. The main one derives from the inherent difficulty for time series models to account for the influence of political factors (Caporale and Grier 2005). While we have acknowledged that the use of wave dummies is prone to many shortcomings, we hope to have convinced the reader that a mixed-method approach that combines statistical analyses with detailed narratives can be a fruitful strategy to the study of

political events. On another note, the selection of what is usually thought to be a rather peculiar case can be a source of scepticism for the generalizability of this study. While we do not claim that our results are exportable to all settings, we have nonetheless shown that Italian politics has not been so peculiar as citizens' economic perceptions regularly predicted government approval before the crisis. Moreover, the political developments which occurred in Italy during the Great Recession are not so different from those of other Southern European countries. If anything, they make the country a paradigmatic case to test the combined effect of 'grievance asymmetry' and 'blurred responsibility' theories.

In the end, our results suggest a certain degree of optimism. From the perspective of democratic accountability, the instability in the relationship between the economy and citizen behaviour challenges 'the normative foundation of the economic voting paradigm' (Anderson 2007, 276). However, we have shown that even when the attribution of responsibility for economic output is a particularly difficult cognitive task, voters can find a shortcut. In forming their responsibility judgements, they can take into account economic inputs and other political manifestations of poor performance. Indeed, Johan Olsen has recently suggested that demands for accountability are conditional on *shifting public attention*, because citizens tend to be 'activated by extraordinary events, disasters, performance crises, scandals, or conflicts' (Olsen 2017, 529). In this respect, our findings confirm the limitations of theorizing accountability procedures only as output-evaluating devices (Busuioc and Lodge 2016). The contingency of economic voting might not be so dramatic if we see the relationship between citizens and rulers from a broader perspective.

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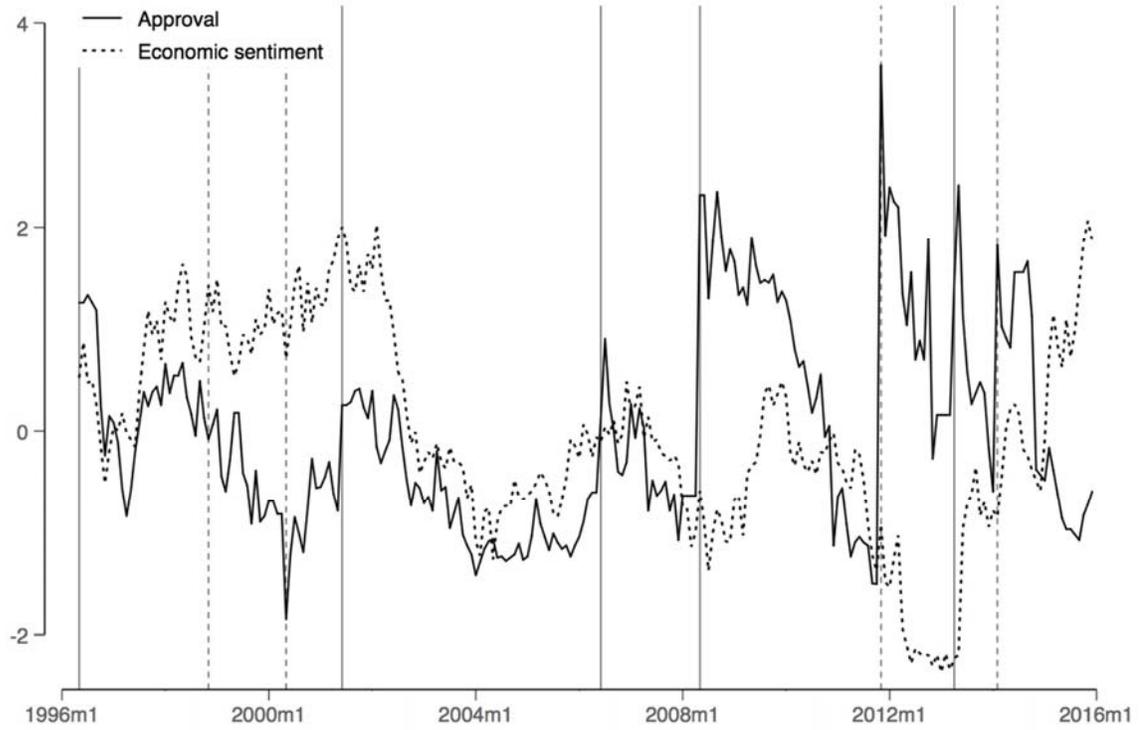
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FIGURE 1 – Government approval and economic sentiment indicator



Note: Variables are standardized. Vertical solid lines mark legislative elections; vertical dashed lines mark changes in government during a legislature.

TABLE 1 – The impact of economic evaluations on government approval

	Model 1 may96-dec15	Model 2 may96-aug08	Model 3 sep08-dec15
<i>Popularity t-1</i>	0.678*** (0.043)	0.803*** (0.051)	0.126 (0.086)
Δ <i>Economic sentiment</i>	0.399** (0.136)	0.405** (0.132)	-0.006 (0.224)
<i>Time in office</i>	-0.164*** (0.032)	-0.076** (0.025)	-0.832*** (0.096)
<i>Berlusconi</i>	2.678** (0.811)	1.316 (0.696)	13.415*** (1.905)
<i>Monti</i>	4.548*** (1.334)		6.671*** (1.627)
<i>Constant</i>	12.524*** (1.740)	7.143*** (1.868)	41.056*** (4.196)
<i>Observations</i>	235	147	88
<i>AIC</i>	1415.10	792.38	540.90
<i>BIC</i>	1435.86	807.33	555.77
<i>R</i> ²	0.73	0.74	0.78

Note: Standard errors in parentheses. Sig. levels: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

TABLE 2 – The impact of policy debates

	Model 1	Model 2
<i>Popularity t-1</i>	0.657*** (0.064)	0.537*** (0.057)
<i>Honeymoon</i>	13.905*** (2.229)	16.239*** (2.249)
<i>Monti</i>	26.811*** (4.286)	11.352*** (1.772)
<i>Berlusconi</i>	-0.125 (0.194)	-0.250 (0.195)
<i>Stimulus (b)</i>	2.402* (1.143)	2.753** (0.912)
<i>Austerity1 (b)</i>	-5.463*** (1.582)	
<i>Austerity2 (b)</i>	-3.080 (1.969)	
<i>Austerity (m)</i>	-24.389*** (5.102)	
<i>Labor reform (m)</i>	-2.900 (2.529)	
<i>Labor reform (r)</i>	-4.544** (1.523)	
<i>Austerity Index</i>		-7.455*** (1.119)
<i>Constant</i>	13.705*** (3.022)	19.405*** (2.709)
<i>Observations</i>	91	91
<i>AIC</i>	499.56	508.17
<i>BIC</i>	527.17	525.74
<i>R²</i>	0.90	0.88

Note: Standard errors in parentheses. Sig. levels: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

TABLE 3 – The impact of scandals and cabinet crises

	Model 1	Model 2	Model 3
<i>Popularity t-1</i>	0.747*** (0.057)	0.735*** (0.056)	0.741*** (0.054)
<i>Monti</i>	2.381 (1.434)	2.385 (1.431)	2.164 (1.382)
<i>Berlusconi</i>	0.165 (0.253)	0.193 (0.250)	0.195 (0.243)
<i>Honeymoon</i>	21.712*** (2.448)	21.680*** (2.417)	21.565*** (2.387)
<i>Immunity</i>	0.957 (1.443)		
<i>Ruby affaire</i>	-4.714* (2.218)		
<i>Fini split</i>		-3.953* (1.598)	
<i>Monti resignation</i>		-3.839* (1.923)	
<i>Letta crisis 1</i>		-2.802 (2.244)	
<i>Letta crisis 2</i>		-1.018 (3.404)	
<i>Cabinet crisis Index</i>			-3.229** (1.121)
<i>Scandals Index</i>			-0.412 (0.998)
<i>Constant</i>	8.668*** (2.438)	10.023*** (2.478)	9.817*** (2.434)
<i>Observations</i>	91	91	91
<i>AIC</i>	543.60	542.58	538.99
<i>BIC</i>	561.17	565.18	556.57
<i>R²</i>	0.82	0.83	0.83

Note: Standard errors in parentheses. Sig. levels: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

TABLE 4 – Final models

	Model 1	Model 2	Model 3
<i>Popularity t-1</i>	0.449*** (0.054)	0.187* (0.073)	0.454*** (0.055)
<i>Monti</i>	11.986*** (1.589)	13.911*** (2.134)	11.918*** (1.601)
<i>Berlusconi</i>	0.000 (0.182)	0.014 (0.229)	-0.011 (0.184)
<i>Honeymoon</i>	15.034*** (2.026)		15.174*** (2.050)
<i>Stimulus (b)</i>	3.008*** (0.816)	6.474** (1.973)	3.036*** (0.821)
<i>Austerity Index</i>	-7.803*** (1.002)	-8.674*** (1.616)	-7.686*** (1.028)
<i>Cabinet crisis Index</i>	-3.897*** (0.827)	-3.901*** (1.087)	-3.898*** (0.831)
<i>Time in office</i>		-0.295* (0.135)	
Δ <i>Economic sentiment</i>			0.080 (0.144)
<i>Constant</i>	24.055*** (2.614)	38.202*** (3.584)	23.793*** (2.668)
<i>Observations</i>	91	91	91
<i>AIC</i>	488.59	529.78	490.25
<i>BIC</i>	508.68	549.87	512.85
<i>R</i> ²	0.90	0.85	0.90

Note: Standard errors in parentheses. Sig. levels: * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$