

Re-electing the Culprits of the Crisis? Elections in the Aftermath of a Recession

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Abstract

Theories of economic voting and electoral accountability suggest that voters punish incumbent governments for poor economic conditions. Incumbents are thus expected to suffer substantially during significant economic crisis but its successor in office will face the difficult task of reviving the economy. The economic crisis may, therefore, negatively affect government parties in subsequent elections even though the economic conditions may, to a large degree, have been inherited from the previous government. We argue that economic conditions play an important role in such circumstances as they place specific issues on the agenda, which structure the strategies available to the parties. We study the 2013 Icelandic parliamentary election in which the incumbent government parties suffered a big loss despite having steered the country through an economic recovery. While perceptions of competence and past performance influenced party support, three specific issues thrust on the agenda by the economic crisis — mortgage relief, Icesave, and EU accession/negotiations — help explain why the centre-right parties were successful in returning to the cabinet.

Keywords: Economic voting; Economic crisis; Voting behavior; Issue voting; Political parties

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The global credit crunch in 2008 spurred research into the question whether and how significant economic turmoil affects electoral behavior (e.g., Bellucci et al., 2012; Lewis-Beck & Whitten, 2013; Magalhães, 2014). So far most of the research has only considered the first election following the global credit crunch, leaving open the questions whether and how economic crisis may shape electoral behaviour in the longer term. It has been argued that the economy is one of the more powerful factors influencing vote choice among short-term issues (Lewis-Beck & Whitten, 2013). However, as Nezi (2012) argues, the effects of the economy may have an impact beyond the short-term if the extent of the economic difficulties surpasses a certain threshold. Large economic shocks may wipe out the incumbent's chances of staying in office and hand the reins over to a new government that often is saddled with the unenviable task of engendering economic recovery. The sustained periods of economic difficulties or slow recovery that are likely to follow significant economic crisis may, however, reduce voters' confidence in both the incumbents at the onset of the crisis and those that take office during or following the crisis. In the longer term severe economic recession may, therefore, lead to a decline in partisanship (Nezi, 2012; Teperoglou & Tsatanis, 2014; Önnudóttir et al., 2014) and result in greater electoral volatility. That in turn, may open up a space for parties to adopt populist electoral platforms and to capitalize on specific issues rendered salient by economic challenges faced by voters.

Iceland is an interesting case for beginning examination of how economic crises affect electoral behavior beyond the first post-crisis election. Iceland was hit particularly hard by the 2008 global credit crunch and its consequences were highly salient during the term of the government elected into office in 2009 and through the 2013 election in which the government parties for much of the period leading up to the crisis were brought back into office. It can, therefore, be said that although the public widely perceived those parties as sharing a large share of the blame for the economic crisis, they decided to "re-elect the culprits" to office in 2013.

The fact that the incumbent parties appeared to have been successful in setting the economy on a path of a recovery from 2009 until 2013, thus makes the outcomes of the 2013 election a bit of a puzzle — i.e., in the light of improving economic conditions, voters might have been expected to return the incumbents to office. We argue, however, that the 2013 election was very much about the economy and that the role of the economy in the election can be understood by considering the particular effects of the economic crisis on voters and how the opposition parties were able to exploit the issue to their advantage. In short, the single most tangible aspect of the economic crises for voters was the increase in household debt, owing in large part to mortgages secured in foreign currency. The question of mortgage relief, thus, provided an opportunity for the opposition parties to set the agenda by challenging the incumbent government on a issue on which it had failed to take a decisive action. Thus, while the government would likely have been able to put up a decent fight had the question of the economy been fought on the grounds of inflation or unemployment, the mortgage relief issue was a chink in the government's armour that allowed the "culprits" back into office — only about five years after the collapse of the economy.

The Economy & the Vote

The literature on the effects on the economy on electoral outcomes is extensive. While not the first to study this relationship, Fair (1978) was among the first to explicitly examine the mechanisms by which the economy affects electoral outcomes and drawing a distinction between retrospective and prospective models of voting behavior. Both models assume that voters cast their votes with an eye towards maximizing economic well-being but the key difference between the models is whether voters are assumed to formulate expectations about future performance, i.e., retrospective voters make their decisions on past and current economic performance while prospective voters attempt to project future performance on basis of the information available, e.g., party platforms or leader competence, which may include past economic performance. There is an impressive literature documenting the economic vote.¹ One of the interesting finding that emerges from this literature is that magnitude of the economic vote varies considerably across countries.² Scholars have sought to explain these differences by focusing on contextual variation. In an important contribution, Powell & Whitten (1993) focus on clarity of responsibility, i.e., the idea that voters must be able to identify who is responsible for the economy in order to engage in economic voting. Others, e.g., Duch & Stevenson (2008) and Hellwig (2010), have since expanded on this idea and explored how political institutions influence the economic vote.³

Another intriguing finding in the literature, which has been explored less, is that the magnitude of the economic vote not only varies from country to country (Kayser, 2014) but also varies from election to election within the same country (Duch & Stevenson, 2008). One reason such patterns occur is that salience of the economy — relative to other issues — may vary from election to election. In particular, scholars have examined the questions whether the issue priorities of voters vary in response to economic conditions and whether the effects of the economy are asymmetric, i.e., whether voters engage in economic voting when economic conditions are poor but not when the economic is performing well (Soroka, 2006; Singer, 2010).⁴ Similarly, Anderson (2007) suggests that such fluctuation in the importance of the economic vote may be due to changes in the political context — while the domestic institutional context remains fixed political outcomes can fluctuate, e.g., between single-party and coalition governments or between

¹For a useful overview of the literature and some of the challenges in the study of the economic vote see, e.g., Lewis-Beck & Stegmaier (2006) and Hellwig (2010).

²ih Larsen (2016) notes there is limited evidence for an economic vote in the Scandinavian countries when focusing on objective economic indicators but shows that the lack of evidence is due to a failure of taking the political context into account. Research focusing on subjective assessment does, however, find evidence of economic vote in the Nordic countries (see, e.g., Söderlund, 2008; Bengtsson et al., 2013).

³The clarity of responsibility argument has also been extended to the global economy, responsibility is more diffuse when states are more involved in, and affected by, the global economy (see, e.g., Magalhães, 2014). Under those conditions, political parties may gain from blaming the global economy or its major players such as the European Union (EU) or the International Monetary Fund (IMF) (Lobo & Lewis-Beck, 2012; Hobolt & Tilley, 2014).

⁴Wlezien (2005) and Johns (2010) address similar issues in the context of examining whether the common ‘most important issue’ question employed in many surveys captures the importance of the issue or whether the issue is currently seen as a problem.

unified government and divided government or cohabitation, which may help or hinder voters in assigning responsibility as [Powell & Whitten \(1993\)](#) argued. [Kayser & Wlezien \(2011\)](#) further show that the amount of economic voting may be conditioned by the level of partisan attachment among voters but [Önnudóttir et al. \(2014\)](#) and [Teperoglou & Tsatanis \(2014\)](#) argue that the partisan ties are at risk of eroding during a severe economic crisis. Finally, as [Sanders & Carey \(2002\)](#) point out, the presence of a credible alternative to those in office may be necessary in order for voters to hold governments responsible for the economy.⁵

While the 2009 election in Iceland was in many ways a classic case of economic voting ([Indridason, 2014](#)) — with voters punishing the incumbent parties directly in response to rapidly deteriorating economic conditions — it is difficult to explain the 2013 election through the lens of retrospective economic evaluations. Although the 2013 election in Iceland was held in the context of an economic recession and political turmoil that had dominated the political landscape since the collapse of the Icelandic banking system in October of 2008, the economy was in better shape in 2013 than in 2009. Yet the incumbent left-wing coalition government lost its majority and was replaced by opposition parties on the centre-right. This goes against the general arguments that incumbents are punished when the economy goes badly and rewarded when it prospers ([Lewis-Beck & Whitten, 2013](#)) and that voters make inferences about the competence of incumbents on the basis of economic developments ([Duch & Stevenson, 2008](#)). Interestingly, the victorious centre-right parties were in government during most of the boom years leading up to the economic crisis, and were perceived by the public to be the ones to bear the most political responsibility for the economic crisis. Our explanation takes cue from [Anderson \(2007\)](#) who argues that the effects of the economy are moderated by the political context but is distinct in the sense that we emphasize that economic recessions, specifically severe ones, provide strategic opportunities for some parties, especially opposition parties, to boost the salience of specific issues related to the economy — particularly when severe recessions also serve to weaken partisan ties ([Önnudóttir et al., 2014](#); [Teperoglou & Tsatanis, 2014](#)). Thus, we argue that the incumbent government parties suffered electorally — despite improving economic conditions — because the economic collapse had provided a context in which the opposition was able to campaign on specific economic issues that the incumbents had failed to take decisive measures on.

Thus, we argue that the importance of the economy for vote choice was not driven solely by the state of the economy but by the parties' ability to frame the economy in terms of concrete issues that affect voters directly and significantly. The particular manner in which the economic crisis manifested itself in Iceland is relevant here. Following the collapse of the banking sector, the value of the Icelandic krona, which had begun losing its value prior to the crises, plummeted and at the beginning of 2009 its value was about half of what it had been a year earlier. In a country that relies heavily on imports, such devaluation has an immediate and significant effect on purchasing power.

⁵Note, however, that having credible alternatives is more relevant when voters are prospective rather than retrospective.

That was, however, only the beginning. The devaluation of the currency had far greater implications than just increasing prices of imported goods. During the economic boom that preceded the economic crises, interest rates in Iceland had become far higher than in the neighbouring countries, thus taking out loans and mortgages in foreign currencies, at lower interest rates, appeared an attractive option. With the collapse of the Icelandic krona, the number of households that had difficulties making ends meet and making payments on their mortgages more than doubled (Ólafsson & Vignisdóttir, 2012).

The consequences of the currency's devaluation were highly visible to voters and three issues related to the economic collapse soon acquired substantial political significance. First, there was the issue of mortgage relief to help out struggling households. The second issue was the Icesave issue, which concerned the terms of an agreement negotiated between the Icelandic state and the UK and Dutch authorities in order to reimburse the latter for covering the deposit insurance of UK and Dutch customers who had savings in the Icesave accounts of one of the collapsed Icelandic banks. The third issue, which perhaps was more the result of reflections on how the currency crisis might have been avoided and how economic stability might be achieved in the future, was the issue of EU membership. The currency crisis was far from being the only symptom of the economic crisis — unemployment increased dramatically, although it remained fairly low compared to some of the other countries that suffered in the great recession, and inflation increased sharply as well. There is little doubt that the economy provided the backdrop against which the 2013 election was held. There is, however, more to the story than voters casting a verdict on the economic performance of the government. The manner in which the economic crises manifested itself offered the political parties an opportunity to increase the political salience of particular issues and their strategies, in turn, structured the voters' retrospective and prospective evaluations of the parties' performance. The ability of the political parties to exploit these issues for an electoral advantage was, however, conditioned by their past actions and, importantly, participation in government. In particular, the incumbent parties could not credibly counter the Progressive Party's campaign promises to reduce the households' mortgage burden.

Our argument is also related to a literature focused on the costs of governing and the electoral fates of government parties (Rose & Mackie, 1983; Strøm, 1990; Narud & Valen, 2008). As Strøm & McClean (2016) show, parties do appear to pay an electoral penalty for being in government while their fortunes are also dependent on the state of the economy. The cost of governing has been explained by the fact that government parties often face difficult policy choices that are bound to displease some voters.⁶ Scholars have sought to explain variation in the size of the cost of governing, e.g., by considering clarity of responsibility, but here we seek to highlight the asymmetry in the options facing government and opposition parties when it comes to campaigning. In effect, government parties will have a hard time distancing themselves from their record in office while opposition parties will enjoy greater freedom in shaping their platforms.

⁶Paldam & Skott (1995) offer a different explanation, noting that centrist voters may prefer alteration in office when the parties or party blocs don't converge on the median voters preferred policy.

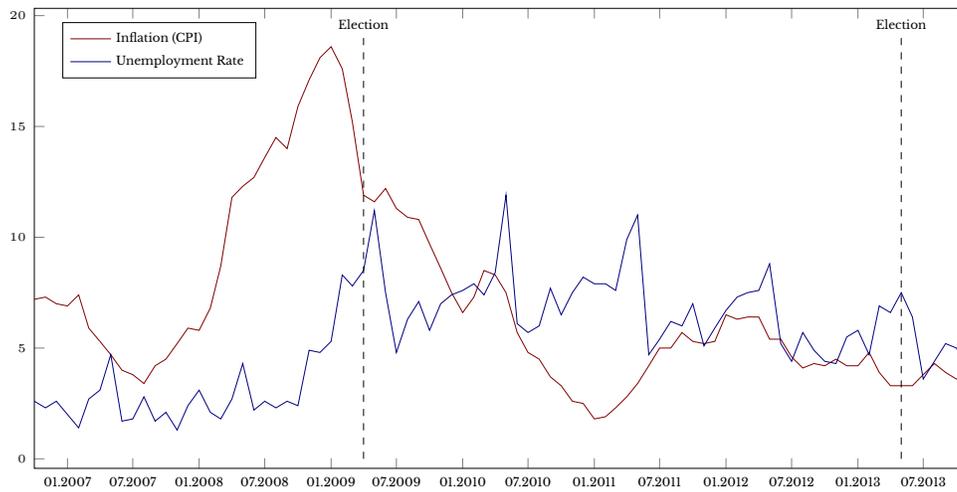
While economic conditions may affect the behavior of voters directly — whether in response to their private economic situation (pocketbook voting) or in response to objective indicators of the state of the economy — the campaign strategies adopted by parties may also shape voters’ responses to the economy. When the economy is in the doldrums, opposition parties are likely to emphasize the economy in their campaigns.⁷ Framing the economy as an issue, especially when the economy has begun showing signs of recovery, is, however, important and helps explain why some opposition parties were more successful than others. A priori, one might have expected the conservative Independence Party to be the biggest beneficiary due to its established reputation for favoring economic growth over other issues. Instead, the Progressive Party was the main beneficiary, which we argue was due to the party’s success in framing the state of the economy as a concrete issue affecting voters, i.e., by focusing on household debt as an issue that the incumbent government had failed to address.⁸

To briefly summarize our expectations, we expect attitudes towards mortgage relief and evaluations of the parties’ policy on that issue to have a significant effect on vote choice. Moreover, voters that considered mortgage relief to be an important issue — and thus unlikely to vote for the incumbent government parties — were more likely to vote for the party that took the lead on the mortgage issue, i.e., the Progressive Party, than the other parties. We don’t have clear expectations regarding the ‘direct’ or ‘unconditional’ effects of the economy on the vote. While the Icelandic economy was certainly still suffering from the economic collapse, there were clear signs of improvement — that is, in those conditions one might expect some voters to evaluate the incumbent government positively (on the basis of improving conditions) while others might come to the opposite conclusion (on the basis of current conditions). However, as much of the concern over the economy manifested itself in the mortgage relief issue, we expect the ‘direct’ or ‘unconditional’ effects of voters’ evaluations of the economy to be depressed or, alternatively, fed through the mortgage relief issue.

Before turning to the analysis of the voters’ choices in the 2013 election, we describe the economic and political context in some detail. The aim here is to provide a brief overview of how the economy developed in the aftermath of the economic collapse. As we shall see, economic conditions played an important role in the 2013 election but rather than being captured directly by objective macroeconomic indicators, the economic recession provided a context in which many voters found themselves in a highly vulnerable position and were ripe for the picking by the opposition parties.

⁷Giger et al. (2015) show, e.g., that party manifestos contain more references to general economic goals when economic conditions are poor and Crabtree et al. (2015) find that negative sentiments in party manifestos vary in a predictable fashion with the state of the economy.

⁸The first sentences of the Progressive Party’s manifesto included: “The homes are the cornerstone of society. ... To solve the [household] debt problem which was not addressed following the economic collapse.” The Independence Party also emphasized reducing household debt but it was not as prominent in the party’s campaign.



Source: Capacent/Datamarket.com. Retrieved 19 November 2013.

Figure 1: Inflation & Unemployment 2007-2014

The Economic Context

Iceland was the first country to suffer the full effects of the global credit crunch in October of 2008, with Iceland's three major banks collapsing and being placed in receivership (Danielsson & Zoega, 2009). Subsequently, in November 2008, Iceland received a bailout from the IMF (Brogger & Einarsdottir, 2008) — the first developed country to require assistance from the IMF in thirty years (Danielsson, 2013).

Currency restrictions were imposed in Iceland in late 2008, as the authorities, along with the IMF, felt that capital controls were necessary to prevent the outflow of money from Iceland (Danielsson, 2013). The currency restrictions, were supposed to be temporary for a short time, but it was not until 2015, seven years after they were imposed, that the government introduced a plan to release the restrictions. Inflation, which has historically been quite high in Iceland (Andersen & Guðmundsson, 1998), shot up from 5.8% in January 2008 to 18.6% a year later (figure 1). When the new left-wing government coalition of Social Democratic Alliance and Left-Green Movement took over in late April 2009 inflation had dropped to 11.9%. The currency restrictions have been credited with being an important factor in bringing inflation down and at the end of the government's term it was down to 3.3%. Figure 1 also shows that unemployment increased substantially in the wake of the financial crises. Unemployment rose from 3.1% at the beginning of 2008 to 8.4% when the new government of the Social Democrats and the Left-Greens took office following the April 2009 election. Taking seasonal fluctuations into account, unemployment appears to decline steadily, albeit at a fairly slow rate, over the last three quarters of the government's term in office. At the time of the 2013 election, the unemployment rate was about a percentage point lower, at 7.5%, then at the time of the previous election.

While GDP growth was negative during the government's first two years in office, the economy started to grow at a modest pace in 2011. In terms of these objective measures of the state of the economy, the performance of the Social Democratic Alliance and Left-Green Movement was by no means poor, especially considering how dire the situation had seemed in the aftermath of the banking crisis.⁹ Thus, even though the macroeconomic indicators showed perhaps only modest improvement it seems unlikely that these factors would drive voters away from the government parties and into the arms of the opposition. As we suggested above, there were more specific consequences of the economic crisis that provided the opposition with an opportunity to mobilize voters.

Mortgage Payments

The objective measures of economic performance may be inadequate for capturing voters' perception of the economic situation or whether some voters are likely to perceive themselves to be disproportionately affected by the crisis. One of the most debated issues during the Social Democrats and Left-Greens government's term in office was what steps the state should take to ease the financial hardship faced by households — in large part driven by the effects of the devaluation of the currency and inflation on mortgage payments.¹⁰ Survey data shows that the number of households with mortgages in arrears almost doubled in the first two years of the recession and that one in ten households had mortgages in arrears between 2010 and 2012 (see figure 2).¹¹ The household survey also asked respondents to evaluate how much of a burden maintaining a home was, which is influenced by other economic factors such as inflation and unemployment. The responses to this question show a more marked increase after the crisis in 2008, rising from 9.6% of respondents indicating that maintaining a home was a heavy burden to 19.2% in 2011. These numbers may underestimate the number of households facing difficulties — the format of the question was changed in the period to detail the costs to be considered but both the old and the new questions were asked in 2010 and 2011. Substantially more households — nearly one-third in 2011 — indicated that maintaining a home was a heavy burden when the question specified the costs to be considered. The number of families under water with their mortgages tells a similar story — their number tripled between 2007 and 2010 when about one in five households had negative equity.

The subset of the population that faced financial hardship represented an opportunity for the parties to make the economic crisis a salient political issue. Unlike inflation, unemployment, and the currency restriction measures — which all the parties can agree are undesirable — the issue of mortgage relief and providing aid to the families that were

⁹Capacent's consumer expectation index provides evidence that voters noticed the strengthening economic fundamentals — the index rose from a low of 19.5 in January 2009 to 86.8 in April 2013. During the economic boom preceding the crisis it had fluctuated around 120.

¹⁰Mortgages in Iceland have long been inflation indexed and, thus, the devaluation of the currency also affected those mortgage holders that took out mortgages in Icelandic krona.

¹¹Note that the question about mortgages in arrears is likely to underestimate the number of households affected as the question would exclude those that opted to sell their properties or declared bankruptcy.

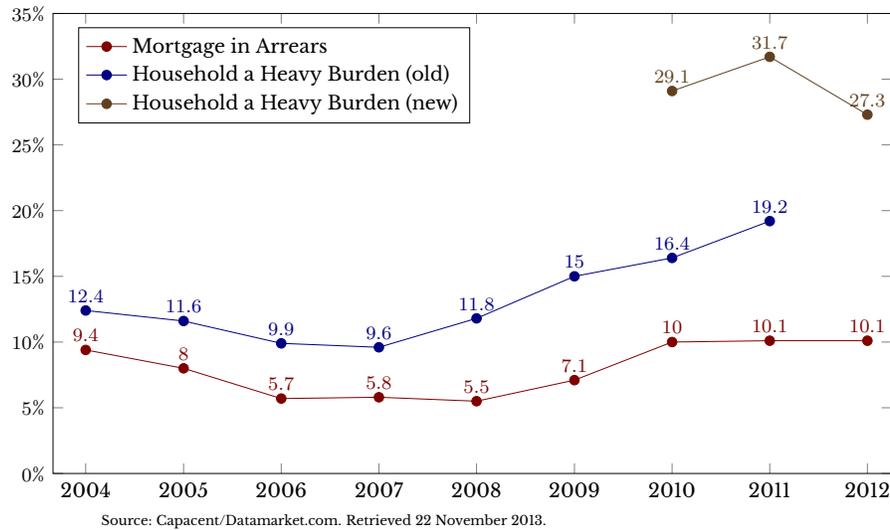


Figure 2: Household Finances

hit the hardest by the crisis is essentially a redistributive issue. However, the parties' ability to capitalize on the issue varied. For the incumbent government parties, campaigning on the issue would raise credibility issues, i.e., it would raise the question why the parties had not already provided more mortgage relief. Thus, only the opposition parties, the Progressive Party and the Independence Party, could credibly campaign on the issue. Reading the electoral manifestos of those two parties, it can be seen that the Progressive Party introduced more concrete election pledges about mortgage relief compared to the Independence Party. The Progressive Party was more aggressive on the issue and was able to hijack it in the political campaign because of their position on the Icesave issue as detailed below.

The Icesave Issue

The economic crisis also affected voting behaviour in ways that extend beyond the objective measures of economic performance and how the crisis affected the economic conditions of individual voters. Voters are, e.g., likely to consider how the parties' responded to the political challenges rising from the crisis as well as their responsibility for the crisis. One of the most salient and hotly debated issue in the aftermath of the banking collapse was, as it is generally referred to, the 'Icesave issue'. Icesave was a deposit account with the Landsbanki in the UK and the Netherlands, which had attracted around 300,000 customers in the UK alone — nearly the size of the total population of Iceland. Following the crash, the British and the Dutch authorities took on the payment of the deposit insurance to the Icesave customers. The responsibility for the deposit insurance developed into diplomatic dispute between the Icelandic authorities and authorities in the UK and the Netherlands (IceNews, 2011). The UK and the Netherlands sought the

Icelandic state's guarantee for a repayment of €4 billion. For context, that amounts to about €3000 per Icelander and, unsurprisingly, the Icesave issue was one of the most debated issues for several years following the collapse of the banking sector. The Icelandic state negotiated three agreements about repayment of the deposit insurance shouldered by the UK and Dutch governments. None of them took effect. The legislation ratifying the first agreement was amended by the Icelandic parliament to the extent that it was unacceptable to the British and the Dutch authorities. The Icelandic President then refused to sign legislation ratifying the second and the third agreements, which triggered a referendum on the legislation. In both instances the voters rejected the legislation ratifying the agreements.

While the second agreement was soundly rejected in national referendum, the referendum on the third agreement became highly polarized and very hotly debated. The debate took on a clear nationalistic tone with the grassroots organization InDefence leading the opposition to an agreement. Those in favour of voting for the agreement were accused of cowardice and betrayal in order to appease the big European countries (Hallgrímsdóttir & Brunet-Jailly, 2014). When it became clear that negotiations would not bring the matter to a conclusion, the EFTA Surveillance Authority took Iceland to the court over a breach of the Deposit Guarantee Directive in late 2011. The court ruled in the favour of Icelandic authorities in late January 2013 (EFTA Surveillance Authority, nd).

The Icesave issue gained political salience as attitudes about the terms of the agreement and the legal obligations of the Icelandic state to guarantee repayment were divided along party lines. The only party taking an unambiguous stance against all three agreements was the Progressive Party and following the EFTA Surveillance Authority's ruling, the party appeared to reap significant benefits from having staked out a clear position against the agreements. The support for the Progressive Party increased by over 50%, from 14.2% in January to 22.1% in February (see figure 3) — primarily at the expense of the Independence Party. The Progressive Party maintained its gains until the election in May in which it won 24.4% of the vote.

Another relevant aspect of the economic crisis was the question whether the political parties were responsible for the onset of the crisis and to what degree that responsibility varied. As seen in Figure 4, respondents in both the 2009 and 2013 Icelandic National Election Study (ICENES)¹² considered financial institutions (the banks, the Icelandic Financial Supervisory Authority and the Central Bank) to bear the greatest responsibility, with the Independence Party following closely behind. The Progressive Party and Social Democratic Alliance were seen as holding substantially less responsibility than the Independence Party. Respondents overall assigned slightly less responsibility to all the actors in 2013, perhaps indicating diminished anger over time.¹³ However, the ranking of the actors remained identical in the two surveys and there is little evidence to suggest that respondents had forgotten who to blame for the economic crisis. Thus, on the basis

¹²Data from ICENES is available at: fel.hi.is/icelandic_national_election_study_icenes.

¹³The slight decrease might also stem from the 2013 survey asking about more actors than the 2009 survey.

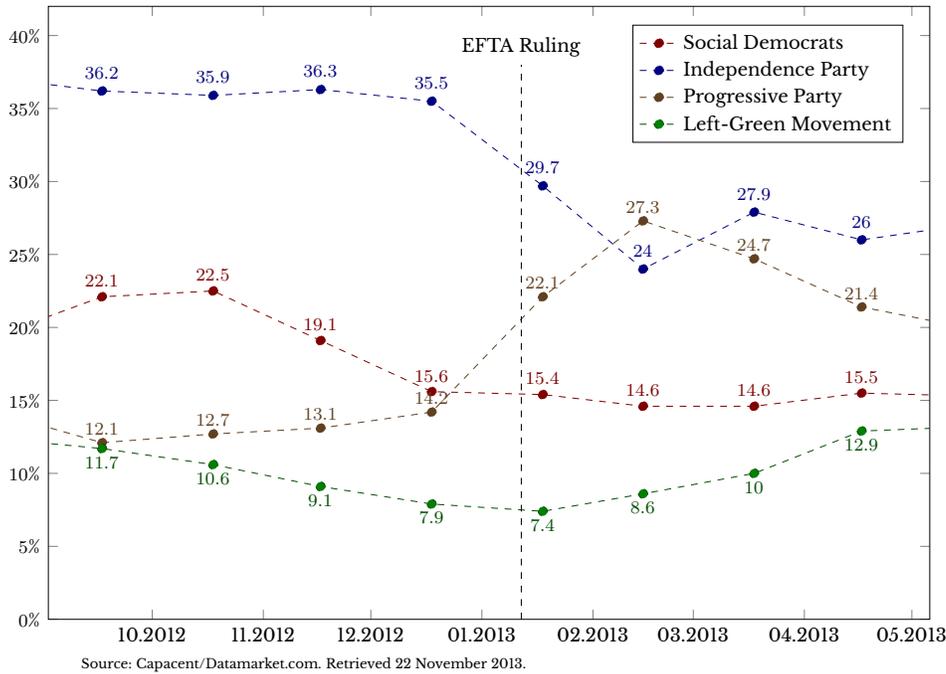


Figure 3: Vote Intentions

of the descriptive evidence it appears that in 2013 voters were focused on expectations about future performance on issues that dominated the election campaign, primarily how to deal with the financial consequences of the collapse, both at the level of individual mortgage payers and at the national level. This is clearly seen in people’s response in ICENES 2013, to what the most important political issue is today where 62% mentioned the economy, with EU membership being the second most common response trailing far behind at 10%.

The Political Context

The 2009 election was an early election due to a political crisis triggered by the economic collapse. After two years in office, the incumbent Independence Party and Social Democratic Alliance coalition bowed under pressure, primarily as a result of unprecedentedly large and repeated public protest, and dissolved in January 2009 (Bernburg, 2014). Subsequently the Left-Green Movement joined a minority coalition led by the Social Democratic Alliance. The Progressive Party agreed to lend the coalition support in parliament and protect it from a vote of no-confidence until elections were held in April. The 2009 election resulted in the first overall majority of the two left parties, the Social Democrats and the Left Greens, in Icelandic political history. The biggest loser of the 2009 election was the right-wing Independence Party, which had been continuously in government since 1991. It lost 12.9 percentage points compared to the 2007 Althingi

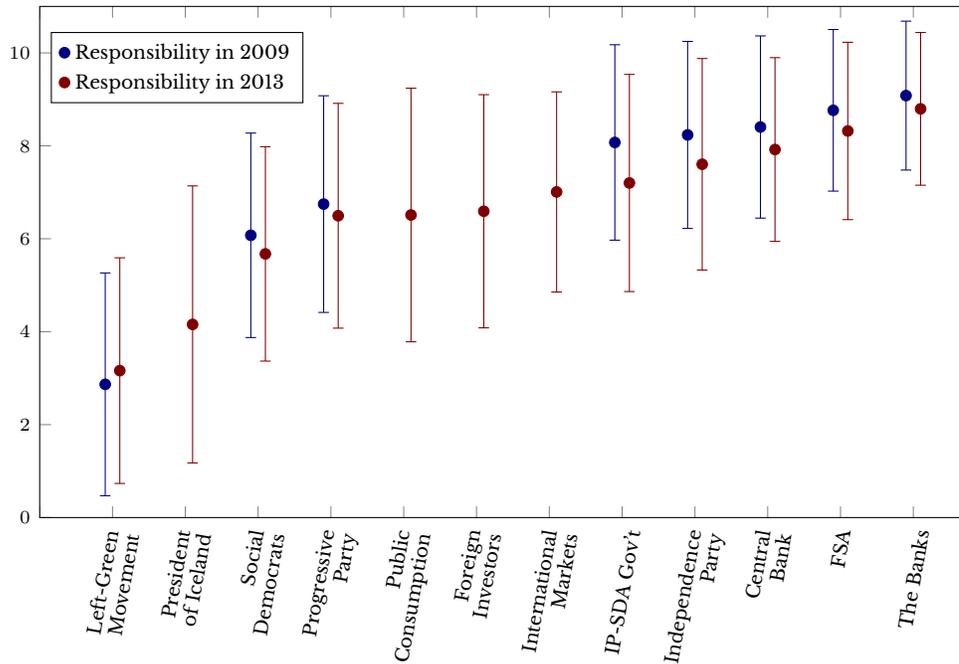


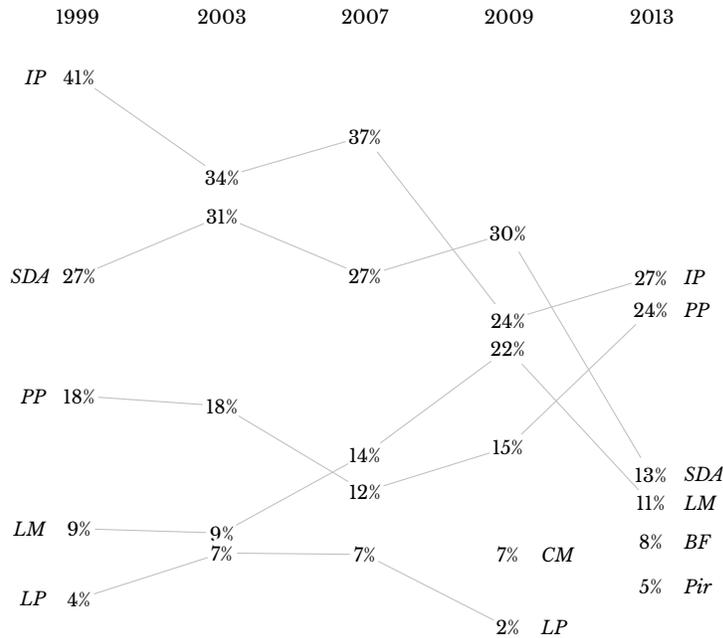
Figure 4: Responsibility for Economic Crisis
 —Mean ± One Standard Deviation—

election, receiving 23.7% of the vote (see figure 5) — the party’s worst result since its foundation in 1929. The Independence Party — the “natural party of government” for decades — found itself in the position of not being the largest party in a parliamentary election for the first time. The poor showing of the party was likely a result of voters seeing it bearing greater responsibility for the crisis than the other political parties, in part on account of it having been in government since 1991 and having overseen the privatization of the state banks.

The Independent Party’s recent coalition partners fared better in 2009, even though voters also considered them responsible for the economic crash. Voters, however, assigned less responsibility to them than the Independence Party (see Figure 4). The Progressive Party — the Independence Party’s coalition partner from 1995 to 2007 — gained 3.1 percentage points (obtaining 14.8% of the vote), while Social Democrats — the Independence Party’s coalition partner in 2007-2009 — gained 3 percentage points, and became the Iceland’s largest party for the first time with 29.8% of the vote.

The major victor of the 2009 election was the Left-Green Movement, gaining 7.4 percentage points to win 21.7% of the total vote; the party became almost as strong as the Independence Party. A new party, the Civic Movement (CM) — with roots in the protest movement — obtained 7.2% and had four MPs elected, while the small Liberal Party (LP) obtained only 2.2% and lost its parliamentary representation. The four traditional political forces in the Icelandic system (IP, PP, SDA, LGM) jointly obtained 90.6% of the total vote. Voters’ anger did not manifest itself in support for new parties but rather in

Figure 5: Electoral Outcomes 1999-2013



Source: Statistics Iceland. Retrieved 22 November, 2013 from <http://www.statice.is/Statistics/Elections/General-elections>

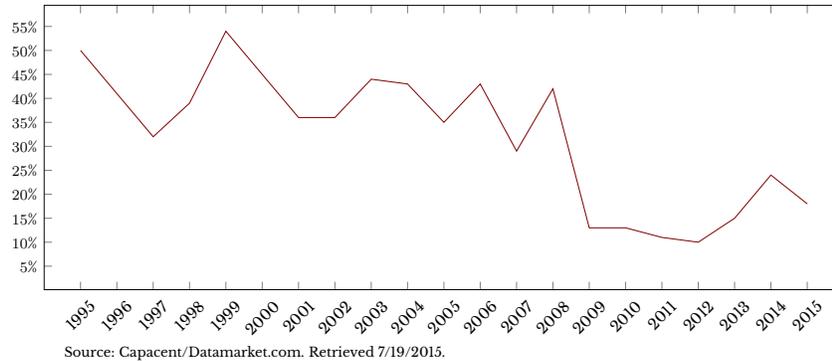
harshly punishing the right-wing and moving to the left (Indridason, 2014).

The coalition of the Social Democratic Alliance and the Left-Green Movement remained in office after the 2009 election, but now with majority support in parliament. The coalition guided the country through a difficult economic recovery in close collaboration with the IMF — the results were hailed as a miracle by some foreign commentators (e.g., Bloomberg, 2012). The government also entered accession negotiations with the European Union (European Commission, 2011), mainly on the grounds that the small Icelandic economy would be much better off in the long-run as part of the EU (Avery et al., 2011).

Political trust in Iceland suffered a big hit following the crisis and has remained low since then. As figure 6 shows, trust for the parliament (great trust) dropped from 42% in 2008 (February) to 13% in 2009 (February) and was 15% in 2013, the year of the second national election after the crisis. In the local elections of 2010, new candidates were quite successful, e.g., in Reykjavík where the Best Party — led by comedian Jón Gnarr — formed a majority coalition with the Social Democrats. This was widely interpreted as distrust of the traditional parties and the political establishment; the ground seemed fertile for new political forces in the coming 2013 Althingi election.

The call for an early election in 2009 provided limited opportunity for new parties to form. That was not the case in 2013 election when a record number of 15 parties fielded candidates; eleven new parties contested the election in addition to the four established

Figure 6: Trust in Althingi 1995-2013



ones. The combined vote share of the four established parties dropped from 90.6% in 2009 to 74.9%. Two of the new parties obtained representation in Althingi; Bright Future (supported by many local Best Party activists in Reykjavík) with 8.2% of the votes, and the Pirate Party with 5.1%. Other new parties jointly obtained 11.8% of the vote but failed to win representation in Althingi.

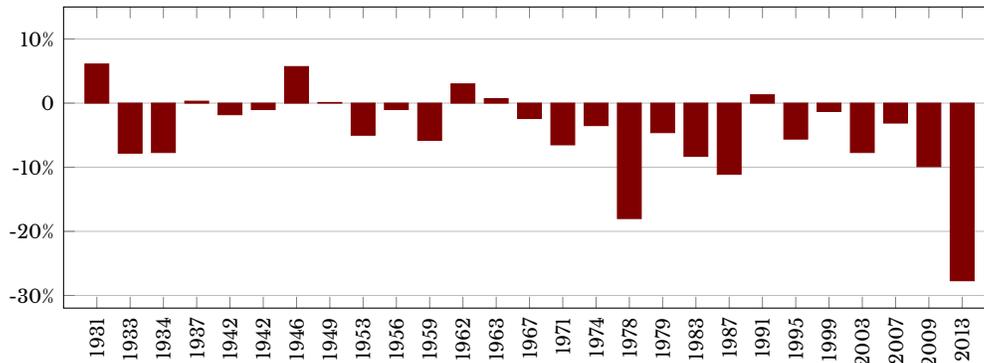
Despite the economy being in better shape than four years prior, the 2013 election was a disaster for the government parties. The magnitude of their net loss in 2013 was unprecedented in Icelandic history with the government parties losing 27.7% of the vote (see figure 7).¹⁴ Left-Green Movement ended up with 10.9% of the vote — a loss of 10.8 percentage points compared to their extraordinary victory in 2009. However, the party’s 2013 result was still better than in 1999 and 2003 albeit somewhat worse than the 2007 result. The crash of the Social Democratic Alliance in 2013 was even more spectacular; the party lost 16.9 percentage points, obtaining only 12.9% of the vote. This was by far the Social Democrats’ worst election result; in the four elections since its formation in 1999, following a realignment on the left, it obtained between 27 and 31% of the vote.

The coalition partners from 1995-2007, the Independence Party and the Progressive Party, won a slight majority (51% of the vote) in 2013. The Independence Party, however, only made a slight recovery from the 2009 disaster, gaining 3 percentage points with 26.6% of the vote — the second worst result in the party’s history. The Progressive Party was the great victor of the 2013 election, gaining 9.6 percentage points with 24.4% of the vote — the party’s best performance for decades. After the election, the two parties formed a coalition, led by the Progressive Party.

In spite of the large vote swings for individual parties it is noteworthy that the 2013 election is in some respects more marked by continuity than change. The combined support for the parties on the centre-right wing, the Progressive Party and the Independence Party, is not very different from what it has been historically. The two established parties on the left wing, the Social Democratic Alliance and Left Green Movement, certainly

¹⁴The 9.9% net loss in the 2009 election incorporates the loss of the IP minus a 2.0% gain for the SDA.

Figure 7: Net Vote Change of Government Parties



Source: Indridason (2005) & <http://www.statice.is/Statistics/Elections/General-elections>. Retrieved 22 November, 2013.

suffered significant losses but those losses can be attributed to the number of new parties, most of which can be placed on the left of the political spectrum.¹⁵ That, again, is not a new phenomenon in Icelandic politics — the left has suffered from fractionalization numerous times. Indeed, both the Social Democrats and the Left-Greens owe their existence to a failed attempt to unify the left. Fractionalization on the left does, however, not tell the whole story. Data from Icenenes shows that about 15% of the supporters of the Social Democrats and 20% of the Left-Green’s supporters voted for the Progressive Party in 2013. While these numbers indicate a fairly significant shift from the left to the right, it appears just as likely that these voters were simply returning ‘home’. That is, it was the 2009 election — in which there was a clear shift to the left — that was exceptional, and the 2013 election, on the other hand, represented a return to normality — with the exception that the left was unusually divided. However, this could also indicate that Icelandic voters have become increasingly volatile with and after the 2009 election, where they are more ready to switch alliances from one party to another between elections. We hope to explore those questions in future research.

The 2013 election is clearly exceptional in one important aspect — the success of the Progressive Party. While the election could mark a return to an old balance between the left and the centre-right block, it could also be the case that while voters had deserted the Independence Party in droves in 2009, they opted for the Progressive Party on their return to the centre-right. We argue that the success of the Progressive Party is due, primarily, to two factors. First, it successfully exploited the opportunity presented by the mortgage crisis — a large subset of the country’s households had fallen behind on

¹⁵ Respondents in the ICENES survey that voted for one of the eleven new parties had mostly voted for left parties in the 2009 election. A total of 72% of those voters had voted either for the Social Democratic Alliance or the Left-Green Movement. Another 10% had voted for either the Citizens’ Movement or the Democratic Movement — both of which belong on the left side of the ideological spectrum. Had the new parties not run and the voters of those parties cast their votes for the left and right parties as they did in the 2009 election the combined vote share of the SDA and the LGM would have been about 43%, which is, for example, more than the two parties received in the 2003 and the 2007 elections.

their mortgages or otherwise struggled with maintaining a home, while the incumbent government had failed to take actions to relieve the stress faced by those voters. The Independence Party, perceiving the Progressive Party as a significant threat to their electoral chances, opted to attack the Progressive Party on the issue of mortgage relief, and as a result propelling the Progressive Party further into the desirable position of setting the agenda during the election campaign. Second, the Progressive Party ended up on the right side of the decision of the EFTA Surveillance Authority on the Icesave issue, which helped the party project an image of competence while also having been on the side of voters who soundly rejected the negotiated Icesave agreements twice. The second issue ties in important ways to the first because the positive perception of the party in wake of the Icesave verdict, gave it the necessary credibility during the election campaign when it promised to “adjust” mortgage payments that were widely seen as unjust. As shown in figure 3, this increase in voters’ support for PP only took place in the last three months before the election, following the EFTA ruling at the end of January 2013.

Analysis

We use data from ICENES 2013 to examine how the parties’ performance and positions on issues related to the economic crisis and its consequences affected vote choice.¹⁶ The dependent variable is the respondent’s vote choice. The analysis is limited to respondents who indicated support for one of the six parties that won seats in parliament.¹⁷

The key independent variables that concern party characteristics measure the perceived performance of the parties and policies as they relate to the economic crisis. *Icesave Performance* is the respondent’s rating of each party’s performance with regard to the Icesave issue on a four-point scale.¹⁸ *Best Mortgage Policy* is an indicator variable that takes the value 1 if the respondent indicated that the party had the best policy regarding the debts (primarily mortgages) facing households.¹⁹ At the party level we also control for the ideological distance between the respondent and each party (*L-R Distance* on a 11-point scale) and party identification (*PID*), which is an indicator variable coded one if the respondent identifies with the party and is zero else.²⁰

¹⁶Sample size: 2595 voters, response rate: 59.3%.

¹⁷Excluded are respondents who indicated that they would vote for one of the smaller parties that failed to win representation. Of the respondents 91.9% indicated a vote for one of the six parties. The number of respondents included in the analysis is 450 due to the number of missing values.

¹⁸The response categories were “Very bad”, “Rather bad”, “Rather good”, and “Very good”. The two new parties, Bright Future and The Pirate Party were assigned the midpoint (1.5) on the two variables about the parties’ past performance.

¹⁹Party identification may, of course, affect respondents’ evaluations of policy, in which case any relationship would be spurious. The amount of mortgages held by respondents is, however, unlikely to be affected by partisanship and does help predict which party is considered having the best mortgage policy. Estimating our model including a measure for mortgages owed (we lose about 1/3 of our sample due to missing responses on the question) instead of *Best Mortgage Policy*, we find that having a mortgage does affect vote choice in a manner consistent with the results presented below.

²⁰The party identification asks whether the respondent considers herself the supporter of a particular party.

At the individual level, our primary interest relates to the respondents' view of the economic situation, the importance of providing economic assistance to those adversely affected by the crisis, and attitudes towards the European Union. *Economic Conditions* is measured on a five-point scale where zero indicates that respondent considers the economic situation to have gotten much worse over the last 12 months while five indicates that she thinks it has gotten much better.²¹ *Mortgage Relief* measures agreement with the statement that the state should provide more assistance to those that face difficulties paying their mortgages as a result of the economic crisis. Degree of agreement is measured on a five-point scale (0-4) where higher values indicate greater agreement. The variable *Pro-EU* is the sum of two survey questions about the European Union. The first question probes attitudes about the continuation of Iceland's accession negotiations, the second attitudes about the desirability of Iceland joining the EU. Answers to each question were provided on a five point scale. Finally, we consider several controls for respondent characteristics, i.e., gender, age, whether the respondent lives in the capital area, and university education.

We estimate a conditional logit model to estimate the effects of party- and individual specific covariates on vote choice (see Table 1).²² We use the Progressive Party, the winner of the election, as the baseline party. That is, the signs of the coefficients for the individual specific covariates indicate whether higher values of the covariates increase or decrease the likelihood of voting for each of the other parties *relative to the Progressive Party*.

To ease interpretation of the results the marginal effects of a change in each of the party specific variables are graphed in figures 8-10. Evaluations of the parties' performance on the Icesave issue had a significant positive effect on the probability of voting for the party (see figure 8). In substantive terms positive evaluations of performance on the Icesave issues had the biggest impact on the probability of voting for the Independence Party — one unit increase on the 0-3 scale increased the probability of receiving a respondent's vote by 16.8% pts. while the corresponding effect for the Progressive Party was 13.0% pts.²³ The effect of more positive evaluations on the issue for the parties on the left was much smaller or around 4.5% pts. Considering the distribution of performance evaluations across the parties this then suggests that the Progressive Party gained from its position on the Icesave issue as half the respondents considered the Progressive Party's performance

²¹Evaluations of economic conditions and government performance are, of course, likely to be colored by partisanship as, e.g., Evans & Andersen (2006), Johnston et al. (2005), Wilcox & Wlezien (1993), and Wlezien et al. (1997) point out. In addition, Chzhen et al. (2013) show that economic perceptions have an effect independent of partisanship when the economy is performing very poorly. Controlling for party identification should help alleviate the problem of endogeneity but our results suggest there is not cause for concern when it comes to retrospective economic evaluations as the effects are small and generally not statistically significant.

²²Individual specific covariates are variables that reflect the attribute of the respondents, e.g., age, gender, and evaluations of the importance of providing economic assistance. Party specific covariates reflect the respondent's attitudes towards the party in some way, e.g., their performance or the ideological distance between the respondent and the party. That is, the first set of variables can be represented by a single value for each variable whereas the latter set is described by one value for each party.

²³It is important to note that the effect of a more positive evaluation is not a measure of the importance of the Icesave issue, i.e., more respondents may have rated the Progressive Parties as high. In other words, the total effect of the variable depends on both the estimated effect of the evaluation and the distribution of evaluations across the parties.

Table 1: Conditional Logit: Vote for Party 2013
—Baseline Party: Progressive Party—

Party Specific Variables					
Icesave Performance	0.67*** (0.16)				
Best Mortgage Policy	1.71*** (0.22)				
PID	3.58*** (0.37)				
L-R Distance	-0.52*** (0.072)				
Baseline: PP					
	BF	IP	SDA	PIR	LGM
Pro-EU	0.54*** (0.12)	0.12 (0.087)	0.56*** (0.13)	0.23** (0.11)	0.35*** (0.11)
Econ. Assist	0.15 (0.28)	-0.40** (0.20)	-0.33 (0.26)	-0.16 (0.27)	-0.16 (0.27)
Econ. Cond.	0.71* (0.40)	-0.11 (0.28)	0.13 (0.37)	0.18 (0.37)	-0.040 (0.37)
Female	-0.23 (0.62)	-0.26 (0.52)	0.70 (0.60)	-0.76 (0.71)	0.94 (0.61)
Age	0.000054 (0.019)	0.035** (0.016)	0.038* (0.020)	0.0017 (0.021)	-0.0090 (0.020)
Capital Area	1.62** (0.74)	-0.31 (0.47)	0.82 (0.63)	-0.63 (0.62)	-0.84 (0.59)
University Edu.	0.28 (0.62)	0.25 (0.54)	0.35 (0.64)	0.85 (0.71)	0.14 (0.66)
Constant	-5.18** (2.09)	1.33 (1.40)	-3.43* (1.94)	0.00014 (1.81)	1.33 (1.85)
Observations	2700				
No. Respondents	450				
Log Likelihood	-290.2				

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Figure 8: Marginal Effects of Party Icesave Performance

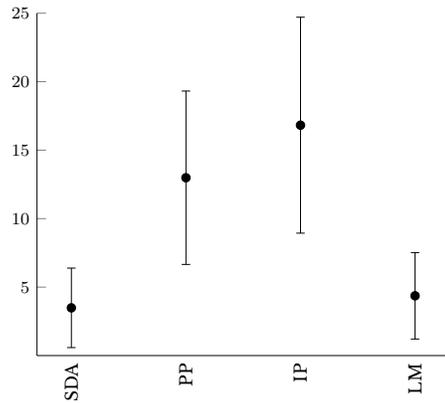
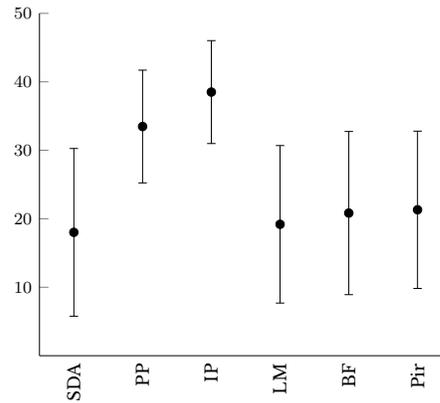


Figure 9: Marginal Effects of Best Mortgage Policy

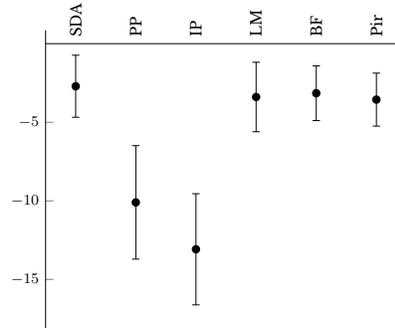


to be either ‘rather good’ or ‘very good’ while only between 35-44% held the same views about each of the other parties. Thus, this finding is in line with our earlier observations that support for the Progressive Party in the polls shot up after the EFTA Court’s ruling on the Icesave issue. It is also to be noted that the gains accrued by each of the centre-right parties (IP and PP) as a result of more positive evaluations on the Icesave issue come at the expense of the other one. Thus, evaluations of performance on the Icesave issue appear to have primarily mattered in terms of choice between the Independence Party and the Progressive Party rather than a choice between parties on the left and on the right.²⁴

Best Mortgage Policy also had a large significant effect, which is consistent with the attention the issue attracted during the electoral campaign (see figure 9). The pattern here is similar to the one we observe with regard to the Icesave issue. The effect of being considered the party with the best ‘solution’ to the mortgage issue was significantly larger for the Independence Party (38.5%) and the Progressive party (33.4%) than for the parties on the left where the effect was estimated to be around 18%-21%. Again, the results suggest that the centre-right parties’ gains from being seen as having the best mortgage policy come at the expense of the other party on the centre-right. Taken together, the results regarding the Icesave and the mortgage issues suggest that emphasizing these issues was an effective strategy for the right and centre-right opposition parties to gain votes at the expense of the government parties. However, those issues also appear to have played an important role in influencing the distribution of the vote among the centre-right wing opposition parties and, in particular, allowing the Progressive Party to reap disproportional amount of the votes gained by the centre-right wing. This is, of course, not immediately obvious from the regression results — to get a clearer picture of that, the number of respondents considering each party having the best mortgage policy must be considered. Of the voters that only named one party as having the best mortgage

²⁴About three-fourths of the PP’s gains come from the IP, while about half of the IP’s gains come at the expense of the PP.

Figure 10: Marginal Effects of Left-Right Distance



policy, 58.6% mentioned the Progressive Party with the other parties trailing far behind — 16.8% mentioned the Independence Party and 10.9% the Social Democratic Alliance. This suggests that the mortgage issue had an outsized influence on the election outcome.

The results show that the respondent's perception of the ideological distance between themselves and a party had a negative and a statistically significant (99% level) effect on the likelihood of casting a vote for the party. The effect of being one unit closer to a party on the 0-10 left-right scale increased the probability of voting for the party between 2.7% pts. (SDA) and 13.1% pts. (IP) (see figure 10). It is noteworthy that the effect was in general considerably smaller for the parties on the left wing of the political spectrum. Unsurprisingly there was a small effect of ideology for the Pirate party, reflecting the party's eagerness to portray itself as standing outside the traditional left-right spectrum.

Identifying with a party has a large positive and a statistically significant effect on voting for the party as expected (99% level). The increase in the probability of voting for a party when the respondent identified with the party (as opposed to when he/she did not) ranged from 62% pts. (SDA) to 69% pts. (PP). There is a strong correspondence between party identification and vote choice — 95% of those respondents who identified with a party also voted for that same party. This effect tends to be bit weaker for the parties on the left and the new parties, perhaps reflecting lower levels of party identification on the fractious left and, of course, the fact that new parties have not had much time to develop a high degree of party identification.

Interpreting the effects of the individual specific covariates is slightly more cumbersome. To help with the interpretation, figure 11 graphs the change in probability associated with a one standard deviation change in each of the variables or, in the case of indicator variables, a change from one value to the other.²⁵ The Progressive Party campaigned heavily on greater economic assistance to those adversely affected by the economic crisis — in particular, the increased burden of exchange rate adjusted mortgage payments. A one standard deviation change in how much the respondents agreed with the statement that the state ought to do more for those facing difficulties increased the

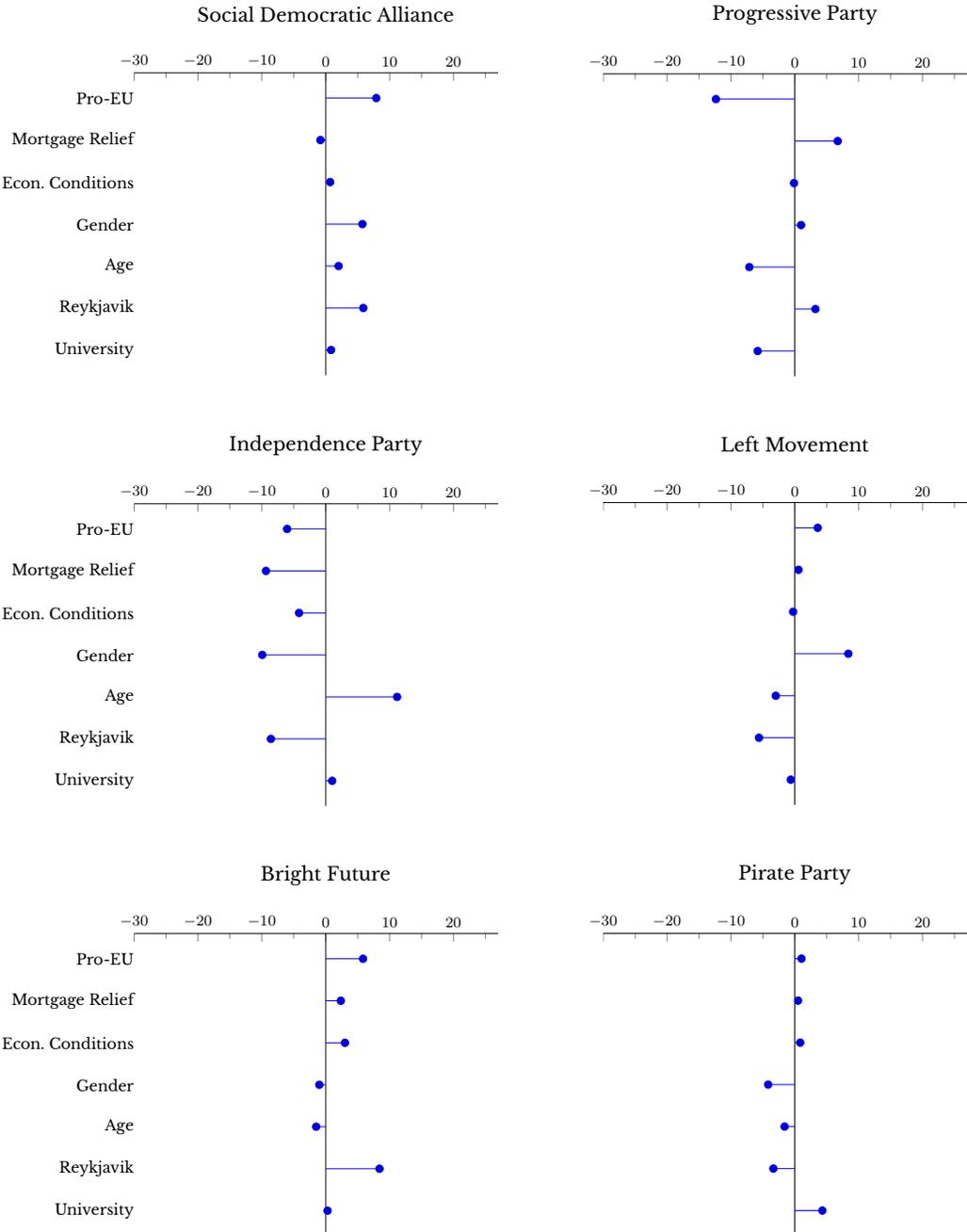
²⁵ In calculating the effect of a one standard deviation change, we vary the values of the variable from the mean minus half a standard deviation to the mean plus half a standard deviation.

likelihood of a Progressive Party vote by 6.7% pts. Bright Future was the only other party slightly more likely to receive votes from respondents who considered mortgage relief a more urgent issue. The Independence Party is the party that suffers — one standard deviation increase in the value of mortgage relief reduces the support for it by 9.4% pts. The other parties were not affected much — again, this suggests that the Progressive Party's strategy with regard to the mortgage issue paid dividends. The issue of greater aid to households facing financial difficulties was, thus, what distinguished the two main opposition parties from one another and, importantly, it is the key to understanding why the two opposition parties fared so differently in the election.

A positive appraisal of the change in the economic condition over the past 12 months had negligible effect for most of the parties. The exceptions were Bright Future, whose predicted vote share increased by 3.0% pts. and the Independence Party, which lost 4.2% pts. when considering a one standard deviation change in the assessment of the economy. It is interesting that the estimated effects of the perception of the economic conditions do not reflect the expected government vs. opposition effect as suggested by theories of retrospective voting and, perhaps in particular, that the new parties benefited from rosier views of the economy. One possible explanation is that voters who think the economy is headed in the right direction may be more concerned with issues other than the economy and were, therefore, more likely to vote for parties that represented different values or a new approach to politics such as Bright Future and the Pirate Party. That will, however, have to remain as a conjecture for now.^{ih} Considering whether subjective assessments of the economy affect support for the two coalition parties in different ways is also of some interest as recent work (see, e.g., [Duch & Stevenson, 2008](#); [Fisher & Hobolt, 2010](#); [Larsen, 2016](#)) has suggested that voters hold the prime minister's party more accountable for the state of the economy. Thus, one might expect respondents' evaluations of the state of the economy to have more of an effect on support for the SDA, which in addition to leading the coalition also occupied the ministry of finance, which is generally regarded at the second most important portfolio and one that plays an important role in the formulation of macro-economic policy, for the second half of the electoral term. We find, however, very limited support for SDA being held more accountable than the LGM — while the estimated effects are in the expected direction, they are both very small and are statistically insignificant.

How attitudes about membership in the EU affected vote choice is also of considerable interest. The government of the Social Democrats and the Left-Greens entered accession negotiations with the European Union although the Left-Greens were hardly united behind the decision with its MPs splitting their votes 8-5 in favour of entering the negotiations. However, pro-EU MPs existed among the opposition party ranks, allowing the motion to pass. Although the Progressive Party had moderated its opposition to membership in the EU ahead of the 2009 election — taking the stand that it was at least worth seeing the terms of the accession treaty before deciding — it can hardly be seen as being pro-EU and the expectation is that respondents expressing support for membership in the European Union were more likely to cast their votes for the Social Democrats, who consistently have favoured membership, or Bright Future, which also

Figure 11: Change in Probability of Vote
— The Effect of a One Standard Deviation Change in Independent Variable —



favoured membership. The results reflect these expectations; pro-EU attitudes increased the likelihood of voting for the Social Democratic Alliance, Bright Future, and the Left-Green Movement as opposed to the Progressive Party or the Independence Party. As figure 11 illustrates, the effect for the individual pro-European Union parties were not negligible. A change in favourable EU opinion by one standard deviation resulted in 3.6-7.9% pts. greater probability of voting for each of those parties (SDA, BF and LGM). Pro-EU attitudes, however, affected the Progressive Party the most — one standard deviation in pro-EU attitudes resulted in a 12.3% pts. lower probability of voting for that party while the corresponding change for the Independence Party was only 6.0% pts.

With regard to the control variables, the results show that male respondents were generally more likely to vote for the Independence Party and the Pirate Party while women were more likely to vote for the parties on the left and the Progressive Party. The respondents' age had a limited impact on vote choice although older voters were slightly more likely to vote for the Social Democrats and the Independence Party. Whether the respondent lived in the capital area also had a significant impact on respondent's choice — respondents there were more likely to vote for the Social Democrats, Bright Future, and the Progressive Party. The Progressive Party has typically been weak in the capital but it appears likely that this effect is related to the mortgage issue as the housing prices had rising sharply in and around the capital in the years prior to the economic collapse. Education appears to primarily influence the respondent's decision whether to vote for the Progressive Party or the Independence Party. There was not much evidence for education, i.e., whether the respondent had a university degree or equivalent, influencing vote choice. There were slight indications that those with university degrees were less likely to vote for the Progressive Party and more likely to vote for the Pirate Party but the effects were far from being statistically significant.

Discussion

The question we ask in this paper is why the two political parties — the Independence Party and the Progressive Party — widely perceived to share the biggest political blame for the economic crisis of 2008 and lost the 2009 election, were re-elected into power in the 2013 election. More specifically, we ask why the Progressive Party experienced such a robust increase in support whereas the Independence Party gained only a few percentage points. We argue that the Progressive Party gained credibility on the Icesave issue — and that spilled over to its credibility regarding mortgage relief. The Progressive Party was the only party taking a firm stance against all three proposed Icesave agreements between the Icelandic authorities and the authorities in UK and the Netherlands. All agreements were eventually rejected by the parliament or in national referendums, resulting in the case being sent to the EFTA court. When the EFTA court ruled in favour of Iceland in January 2013, the support for the Progressive Party took a leap. The Progressive Party thus seems to have gained credibility by the EFTA ruling that spilled over to its campaign promises about mortgage relief. The party promised that people's mortgages would be

lowered across the board using money obtained from successful negotiations with the foreign creditors of the bankrupt banks. This idea was warmly received by many and harshly criticized by others for being either unrealistic or unfair, or both.

The research presented here contributes to the existing body of knowledge about how the context structures voters' perception of parties' retrospective and prospective performance. In the 2013 Icelandic election, the economy was regarded as the most important issue by the majority of voters. We argue that the economy as a context explains voters' choice in the election, with the political context as an intermediate factor. The most tangible and salient issues on the political agenda due to the crisis were among other things Icesave, EU accession/membership and mortgage debts. Voters' evaluation of parties' performance were based on how they dealt with those issues but not necessarily the more distal and less tangible issues of stabilizing the national economy with aid from the IMF. Between 2009 and 2013 there were big economic improvements but the government that came into power following one of the biggest government defeats in Icelandic history goes out after suffering the biggest defeat itself.

While the 2009 election seems like a clear case of economic voting as the government of the Independence Party and the Social Democratic Alliance lost their majority in wake of a forceful economic downturn, the 2013 election cannot easily be explained in those terms. In that election, the two parties that were blamed the most for the economic crisis, won majority, while the two left parties, which had been in power for one term during which the economy had improved substantially, lost the election. While there may be issues about what the economic vote is (absolute state of economy or changes in the economy), and whether the effects of the economy are asymmetric, only explaining loss after an economic downturn and not gain after an economic prosperity/stability, it is still a challenge to understand the big loss of the left-wing government between 2009 and 2013 through the lens of economic voting. This challenge is especially relevant when considering only the economic conditions in the short-term, i.e., in the term leading up to election. The challenge is to understand why the two parties, which have consistently been blamed for the economic crisis and the economic hardship they followed, were punished accordingly by voters in 2009 but then elected back into office in the 2013 election. Our results indicate that this puzzling re-election of the culprits of the crisis demonstrates how the effect of the economy on the vote is contingent upon the political context voters find themselves in. That is, the effect of the economy on the vote is not clear-cut in the sense that governments will lose when the economy deteriorates and gain when it improves — but rather that the effect of the economy on the vote has to be understood in relation to the political context voters are exposed to and how that context offers parties different strategic opportunities. In the 2013 election in Iceland the opposition, in particular the Progressive Party, managed to capitalize on and gain credibility by taking position on issues rendered salient by the state of the economy, which the government parties could not credibly counter due to their inaction on the issues as incumbents.

Furthermore, as argued by [Nezi \(2012\)](#) in her study on the economic vote in Greece, incumbent governments have no real chance of winning when economic conditions are

very poor. At the same time, the opposition parties elected into office are faced with a harsh economic reality that continuously to limit the incumbents' opportunity to hold on to their power. Our results indicate that the severity of the recession in Iceland has in this manner had a long-term effect on electoral support, in the sense that voters' ties to parties have weakened, making them more open to shift their alliances to parties that are successful in capitalizing on issues rendered salient in the aftermath of the economic crisis — even though those same parties were perceived by voters to be the main culprits (among the political parties) for how hard the global credit crunch hit the Icelandic economy. If that is true, we could, in the future, see the same or even increasing volatility in electoral support, shifting the balances between parties from one election to another and possibly opening up a space for new parties to establish themselves if the established parties fail to deliver on their promises over a longer period of time.

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Appendix

As discussed in the body of the text, evaluations of the parties' policies may be colored by the respondents' party identification — in particular, with respect to the mortgage issue, the worry is that party identification makes respondents more likely to view their party's mortgage policy more favorably. The survey data from ICENES allows us to examine whether our results are driven by endogeneity. Respondents were asked about how much they owed in mortgages — and because it is unlikely that the amount for mortgages owed is influenced by partisan leaning, we can examine whether our results are driven by endogeneity by replacing the 'best mortgage policy' with measures of mortgage debt. The models also include a dummy variable for whether the respondent is a house owner.²⁶ Table 2 shows the results of a conditional logit model that includes a measure of mortgage debt in millions of kronur.²⁷ The estimated coefficients for *Mortgages Owed* are negative across all the parties (the baseline category is the Progressive Party as before) indicating that an increase in mortgage debt reduced the likelihood that the respondent voted for each party (relative to the Progressive Party). The estimated coefficients are, however, only statistically significant for the Pirate Party but as noted above the sample is somewhat smaller as many respondents declined to provide an answer to the question about mortgage debt. It is also worth noting that not everyone's mortgage was denominated in foreign currency and that considerations of the parties' mortgage policies were not necessarily confined to those carrying mortgages. A significant number of households carried mortgages denominated in foreign currencies — the implication of which was that even if you weren't directly affected, you were almost certain to know someone whose mortgage had doubled almost overnight. Thus, there are good reasons to think that not only those carrying mortgages did consider the issue as one of the most salient one in the election, although presumably those carrying the burden cared more about the issue.

The second set of results, table 3, replaces the *Mortgages Owed* variable with an indicator variable that takes the value one if the respondent whose mortgages exceeded 10 million kronur and zero else. While the 10 million threshold is somewhat arbitrary the variable helps separate those with a light mortgage burden from those with a heavy mortgage burden. It also helps separate those who took out mortgages in Icelandic kronur from those who took out mortgages in foreign currency, i.e., while it doesn't do so perfectly the collapse of the Icelandic currency implies that those in the mortgages denominated in foreign currency were more likely to end up in the heavy burden category. The results are somewhat stronger. The estimated coefficients remain negative throughout as before, indicating that respondents with heavy debt burden were more likely to vote for the Progressive Party, with the coefficients for the Independence Party and the Pirate Party (and the the Left-Green Movement to a lesser extent) being statistically significant. Overall, and despite the limitations of these measures, the results provide further support that the mortgage issue did play an important role in the election.

²⁶*Mortgages Owed* is coded as zero for those that indicate that they are not house owners.

²⁷The current exchange rate is about 140 kronur to 1 Euro.

Table 2: Conditional Logit: Vote for Party 2013
 —Baseline Party: Progressive Party—

Party Specific Variables					
L-R Dist.	-0.55*** (0.071)				
Icesave Performance	0.77*** (0.15)				
PID	3.40*** (0.36)				
Baseline: PP					
	BF	IP	SDA	PIR	LGM
Pro-EU	0.55*** (0.13)	0.078 (0.084)	0.56*** (0.13)	0.19* (0.11)	0.37*** (0.11)
Econ. Cond.	0.58 (0.41)	-0.11 (0.27)	0.31 (0.38)	0.35 (0.38)	-0.099 (0.37)
Female	-0.14 (0.63)	-0.40 (0.51)	1.02* (0.60)	-0.44 (0.70)	1.06* (0.61)
Age	-0.0033 (0.021)	0.014 (0.016)	0.037* (0.021)	-0.0097 (0.021)	-0.0024 (0.020)
Capital Area	2.52*** (0.85)	-0.0094 (0.45)	1.12* (0.64)	-0.14 (0.65)	0.021 (0.59)
University Edu.	0.77 (0.61)	0.94* (0.52)	0.77 (0.62)	1.11 (0.71)	1.06* (0.64)
Mortgages Owed	-0.031 (0.025)	-0.024 (0.017)	-0.027 (0.026)	-0.13*** (0.047)	-0.045 (0.030)
House Owner	-0.031 (0.75)	0.38 (0.62)	0.10 (0.80)	0.80 (0.80)	-0.30 (0.77)
Constant	-5.59*** (1.88)	-0.16 (1.12)	-5.92*** (1.79)	-1.34 (1.62)	-0.45 (1.61)
Observations	2298				
Log Likelihood	-287.5				
No. Respondents	383				

Standard errors in parentheses.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 3: Conditional Logit: Vote for Party 2013
 — Baseline: Progressive Party —

Party Specific Variables					
L-R Dist.	-0.54*** (0.071)				
Icesave Performance	0.76*** (0.15)				
PID	3.46*** (0.36)				
Baseline: PP					
	BF	IP	SDA	PIR	LGM
Pro-EU	0.56*** (0.13)	0.093 (0.085)	0.57*** (0.13)	0.21* (0.11)	0.37*** (0.11)
Econ. Cond.	0.56 (0.42)	-0.12 (0.27)	0.24 (0.38)	0.33 (0.37)	-0.15 (0.37)
Female	-0.12 (0.65)	-0.42 (0.51)	0.93 (0.61)	-0.56 (0.71)	1.02* (0.61)
Age	-0.0077 (0.021)	0.0076 (0.016)	0.029 (0.021)	-0.014 (0.022)	-0.0079 (0.021)
Capital Area	2.44*** (0.85)	-0.060 (0.45)	1.08* (0.64)	-0.25 (0.66)	-0.064 (0.59)
University Edu.	0.71 (0.61)	1.01* (0.53)	0.81 (0.63)	1.05 (0.71)	1.05* (0.64)
Mortgage>10M	-0.53 (0.71)	-1.10** (0.51)	-1.05 (0.67)	-2.87*** (0.90)	-1.19* (0.65)
House Owner	-0.22 (0.80)	0.69 (0.65)	0.34 (0.79)	0.63 (0.74)	-0.25 (0.75)
Constant	-5.32*** (1.91)	0.079 (1.13)	-5.48*** (1.79)	-1.04 (1.60)	-0.052 (1.61)
Observations	2298				
Log Likelihood	-285.1				
No. Respondents	383				

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$