WIFO ÖSTERREICHISCHES INSTITUT FÜR WIRTSCHAFTSFORSCHUNG

Elections and economic uncertainty

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Research question

- **Do elections (election dates) affect economic uncertainty?**
  - Link between election (dates) and uncertainty
  - Firm-level microdata
- Uncertainty as the "Predictability of future business situation"

Background: Elections and uncertainty

- Literature on political business cycles (starting with Nordhaus 1975)
  - (opportunistic) tendency of governments to implement expansionary fiscal and monetary policies during election years
  - Idea: changes in economic cycle are induced by the electoral cycle
- Opportunistic vs Partisan politics
  - Mixed (little) empirical evidence for opportunistic political cycles (e.g. Alesina et al. 1997; rational partisan voters) -> political budget cycles
  - Expectation channel: Switch of policies (partisan business cycles); increase in uncertainty(Azzimonti 2017, Baker et al. 2020)
- Expectation channel – investment channel
  - Electoral surprises (Fetzer & Yotzov 2023) – post-election outcomes (GDP-growth)
  - Close contested elections (Cranes-Wrone & Park 2012) - investment channel
- Elections and uncertainty (investment channel)
  - Stock market volatility before elections (Li & Born 2006)
  - Uncertainty shocks (elections important source of fluctuations; Redl 2020)

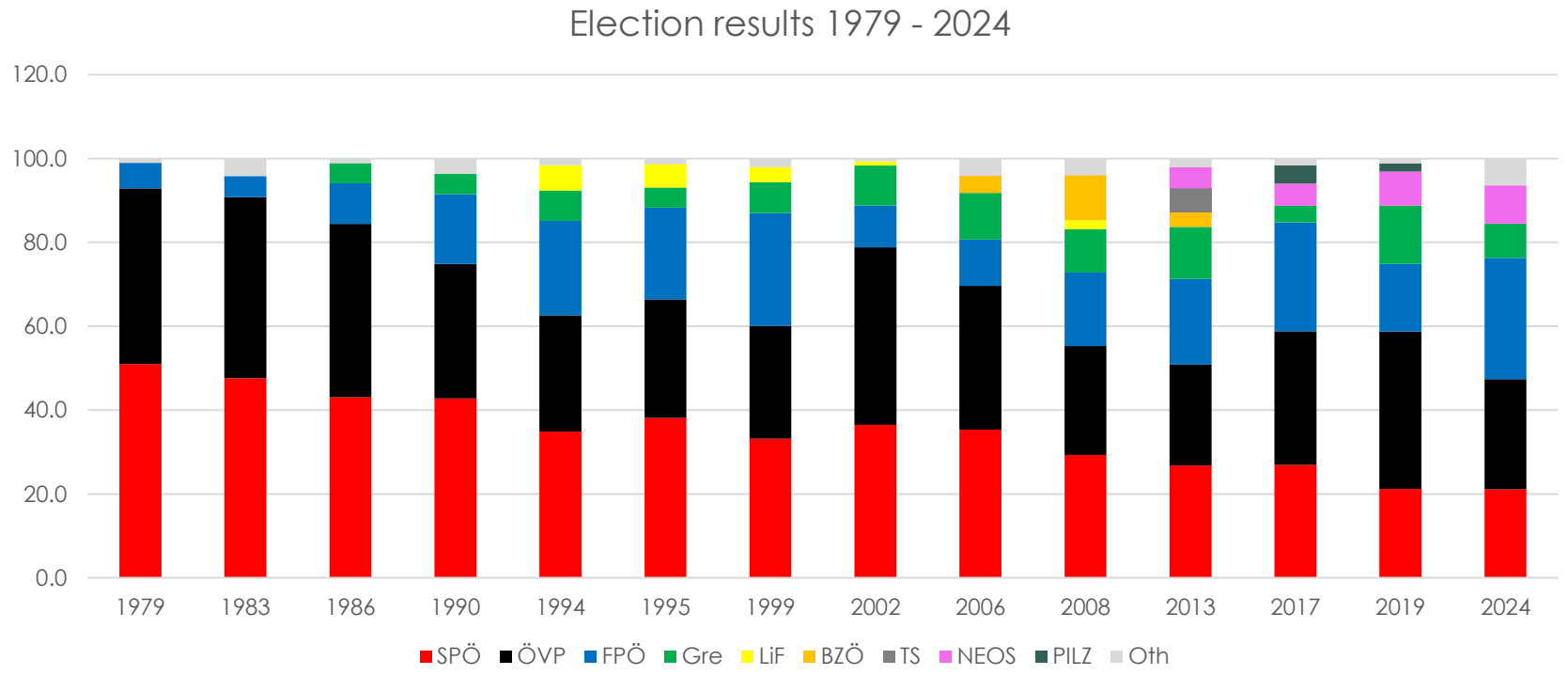
Motivation

- Literature: Link of elections to uncertainty & expectation channel
  - Most studies are macroeconomic in nature and for large countries (USA, Japan, Europe)
    - Azzimonti (2024) shows that EPU is higher in presidential election years
  - Indicators of uncertainty are macroeconomic: EPU, financial market volatility, unpredictable components of indicators
- Do we find a link using **microdata** for a **small open economy** using a direct measure of uncertainty (Glocker and Hölzl 2021) at the firm level?

Background: Elections in Austria I

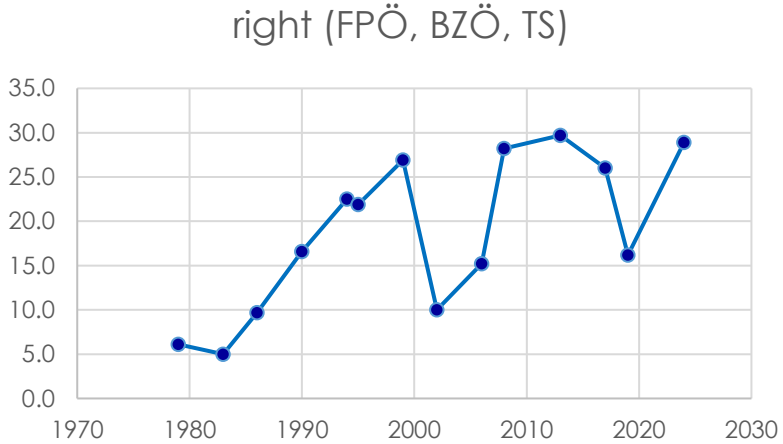
- Elections to the National council (Nationalrat)
- Parlamentary system with proportional representation
- Elections: Every 5 years since 2008; before 2008 every 4 years
- There were snap elections (1986, 1995, 2002, 2008, 2019; if loss of majority)

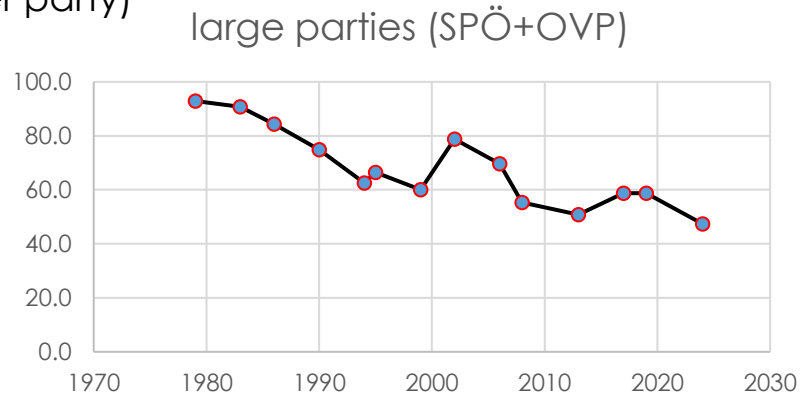
Background: Elections in Austria II

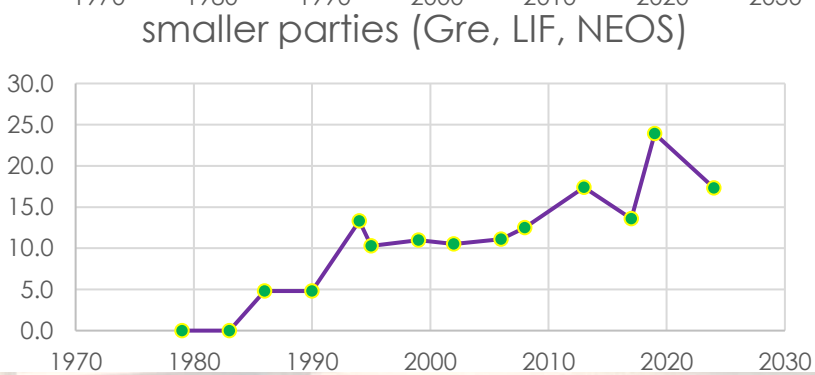


Background: Elections in Austria II

- Rise of the right (since 1983)
- Multiparty system (up to 1983 2 parties + 1 smaller party)
- Decline of the „large parties“







Data Sources

- WIFO Business Survey (WIFO-Konjunkturtest) data from 1982 to 2024

- Firm-level data covering
  - Manufacturing (1982 to 2024) ,
  - Manufacturing, Construction, Retail trade, and services sectors (2014 to 2024).

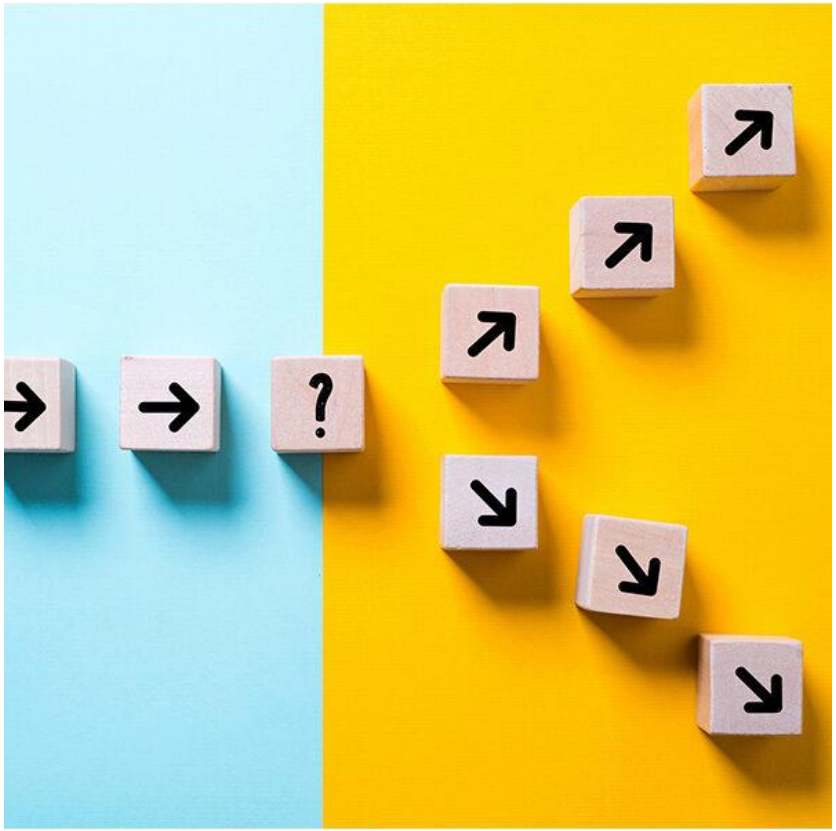
- Election dates

Data I: WIFO Business survey indicators

- **Economic uncertainty**

- since 1982 a quarterly question in industry that asks firm about their predictability of the future business situation
- since 2014 in all sectors
- since 2019 monthly question in all sectors

- These changes entailed also changes in formulation of answers



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Data II: uncertainty

- Since 1982 in the quarterly manufacturing business surveys
- In 2014 (change in wording) and quarterly question in all surveys
- In 2019 (change in wording) & quarterly -> monthly (part of the JHP of EU-BCS)

18 **Die zukünftige ENTWICKLUNG unserer Geschäftslage ist**

1 ☐ in gewissem Maße abschätzbar
2 ☐ wenig abschätzba
3 ☐ sehr unsicher
4 ☐ unsicherer als je

18 **The future DEVELOPMENT of our business situation is ...**

- ☐ to a certain extent predictable
- ☐ difficult to predict
- ☐ very uncertain
- ☐ more uncertain than ever before

15 **Die zukünftige ENTWICKLUNG unserer Geschäftslage ist**

- ☐ sehr gut abschätzbar
- ☐ einigermaßen abschätzbar
- ☐ kaum abschätzbar
- ☐ gar nicht abschätzbar

15 **The future DEVELOPMENT of our business situation is ...**

- ☐ very good predictable
- ☐ reasonably predictable
- ☐ hardly predictable
- ☐ not at all predictable

15 **Die zukünftige Entwicklung unserer GESCHÄFTSLAGE ist...**

- ☐ leicht abschätzbar
- ☐ einigermaßen leicht abschätzbar
- ☐ einigermaßen schwer abschätzbar
- ☐ schwer abschätzbar

15 **The future DEVELOPMENT of our business situation is ...**

- ☐ easy to predict
- ☐ moderately easy to predict
- ☐ moderately difficult to predict
- ☐ difficult to predict

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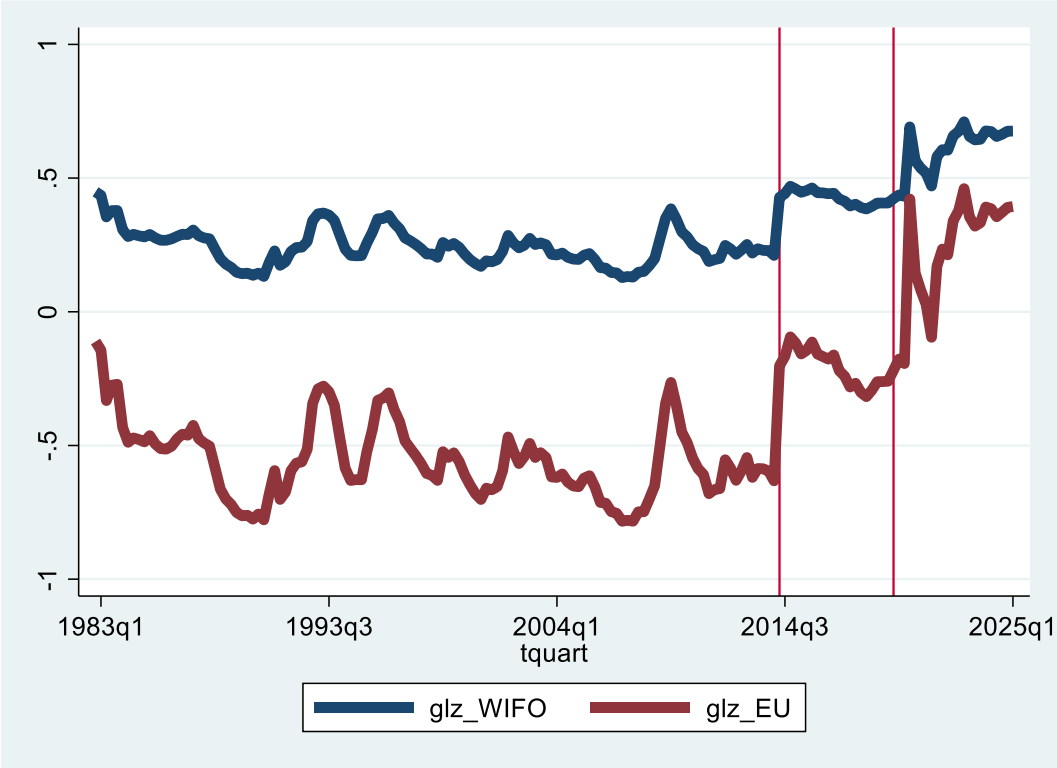
Data II: uncertainty

- Comparison of WIFO-indicator and EU-indicator of uncertainty (balance), industry

- Red lines indicate changes in formulation



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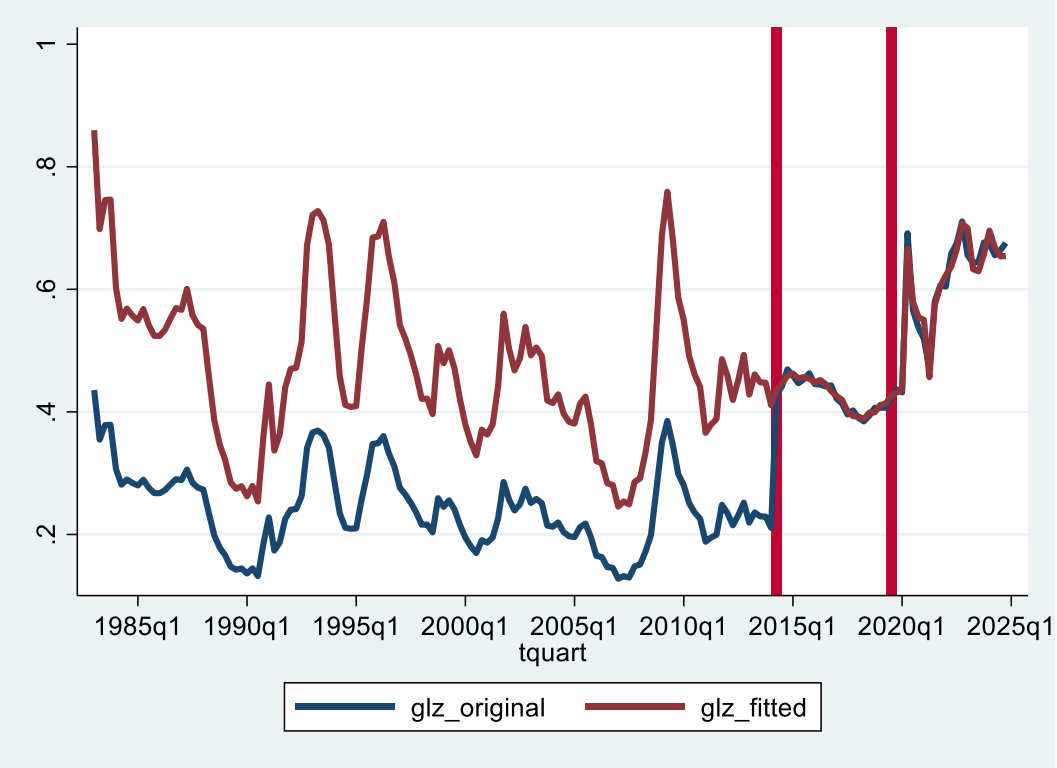
Uncertainty: a bird‘s-eye view

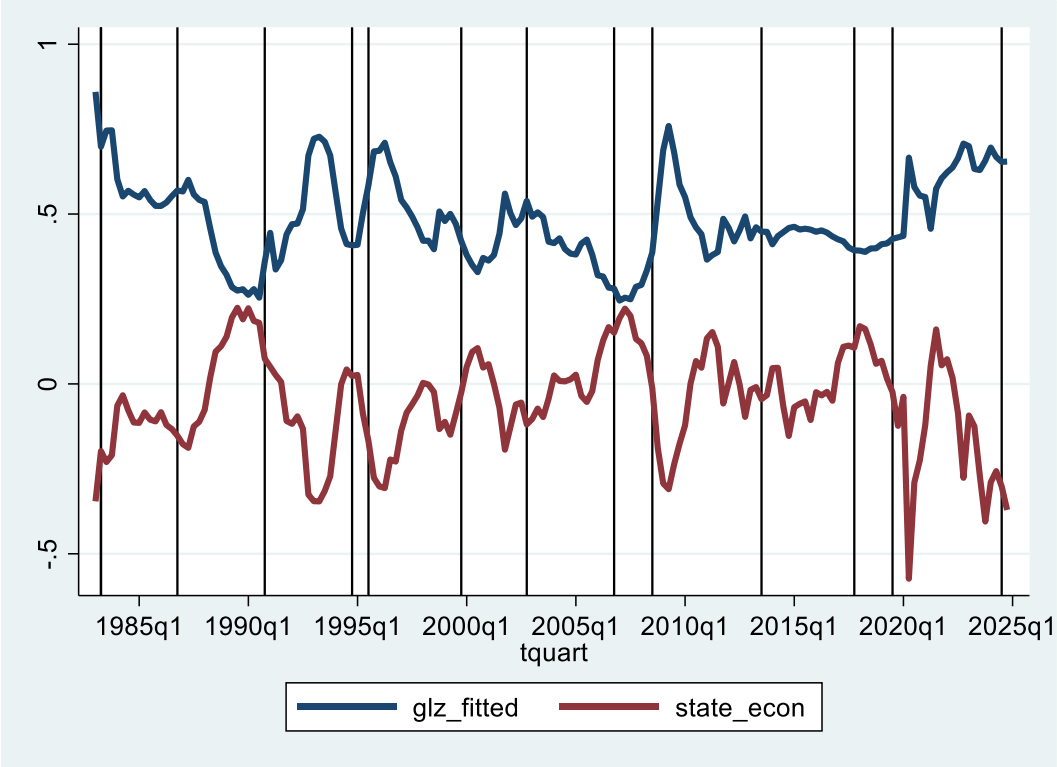
- Adjusted series to get a time series without breaks1982 – 2024

- Aswer options matter:
  - The oldest response options were too strict with regard to the categories of high uncertainty
  - The new (harmonised) response options led to a minor break



Uncertainty and elections: a bird‘s-eye view

- State of the economy: indicator from the BCS based on situation assessment and expectations
- Clear negative correlation between uncertainty and and the state of the economy
- Relationship with election dates is unclear



Uncertainty and elections: a bird‘s-eye view

- **Elections:** Correlations are low, but a no granger causality cannot be rejected

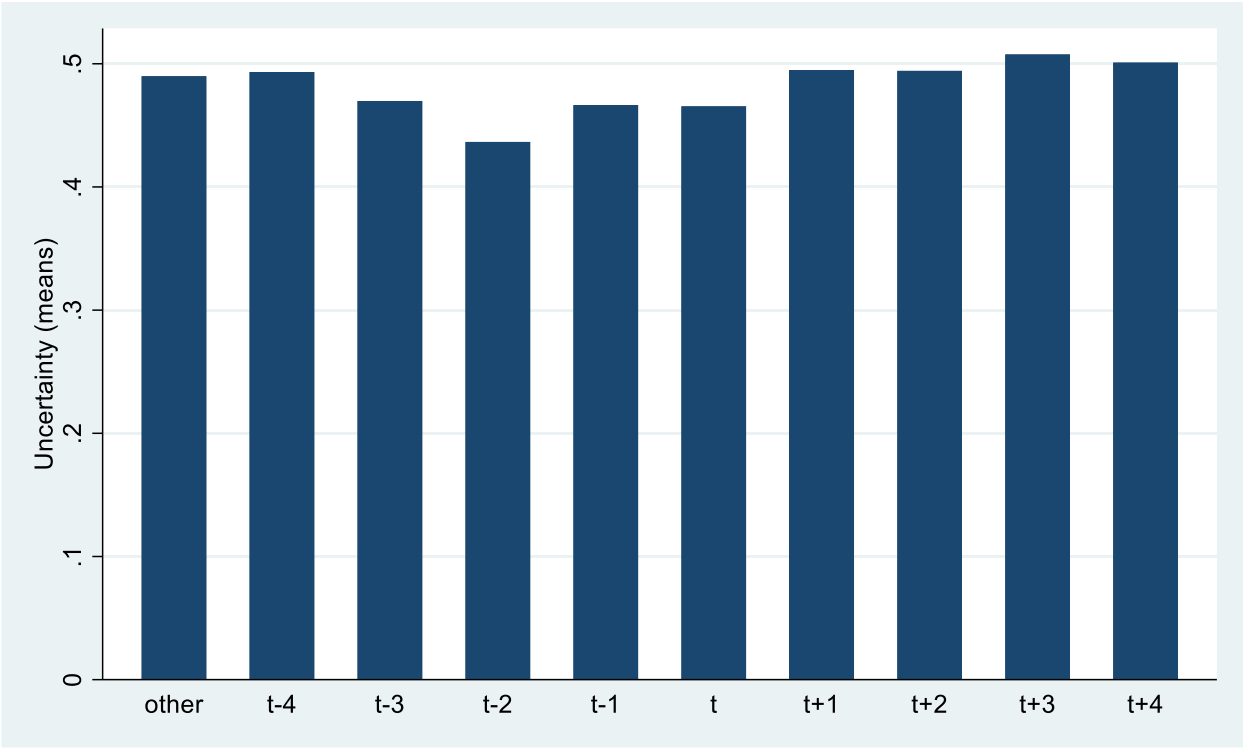
- **Uncertainty & state of the economy:**
  - High negative correlation
  - Granger causality patterns seem to change when one takes into account the COVID and post-COVID period (high uncertainty priod)
  - **Before:** state of economy does not granger-cause uncertainty
  - **After:** uncertainty does not granger-cause the state of the economy

	UNC	STATE ECON	Elections
		Cross-correlation	
STATE ECON	**-0,86**		
Elections	-0,01	-0,02	
		Granger Causality (1982 - 2019)	
UNC		**0,03**	0,37
STATE ECON	0,31		0,92
Elections	0,36	0,43	
		Granger Causality (1982 - 2024)	
UNC		0,96	0,53
STATE ECON	**0,02**		0,43
Elections	0,46	0,56	

Uncertainty and elections: a bird‘s-eye view

- Is uncertainty higher around election dates?

- No, average uncertainty is seems to be lower shortly before election dates (t)
- This is in contrast to US presidential elections (Azzimonti 2024)



... But let's look at the microdata:

How do firms uncertainty perceptions change around election dates?

a) **Is Uncertainty higher around election dates?**
   - **Business situation is difficult or moderately difficult to predict**

b) **Do firms change their assessment of uncertainty around election dates?**
   - **Up, Same, Down**

Empirical research strategy

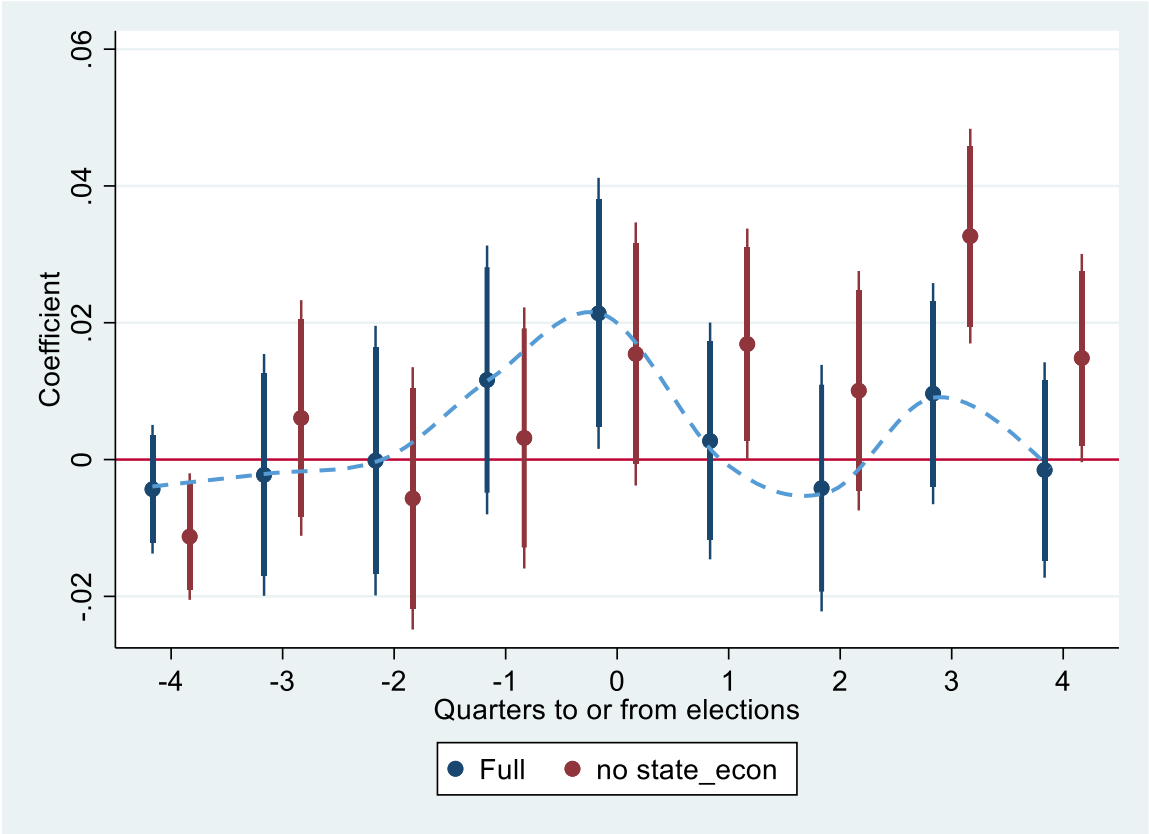
- Similar to an event study;
- Unfortunately, we cannot use the appropriate time dummies as election dates (treatment) do not vary across firms
- We use a linear probability model which allows us to interpret coefficients as percentage points:

$$y_{it} = \alpha + \sum_{\ell=-a}^{a} \beta_\ell \, Elections_t + \sum_{\ell=-a}^{a} \gamma_\ell \, State\_Econ_{st} + \theta_i + \tau_{year} + \tau_{quarter} + \sigma_{year\,j} + \sigma_{quarter\,j} + \epsilon_{it}$$

- We add time firm fixed effects (θ), time fixed effects (τ – year and quarter), industry-specific (NACE 2 dig) year and quarter fixed effects (interacted), and
- lags and leads of the state of the economy measured at the sector-group level.
- Estimated using Stata command reghdfe (Estimator by Correia 2015) that allows for many fixed effects.

Does uncertainty increase around elections?

- INDU, 1982-2024
- Full specification includes lags and leads of state of economy (at subgroup level)
- UNC=1 if uncertainty is difficult to predict and 0 otherwise
- Impact of elections is concentrated around the election date
- Small coefficients
- Contemporaneous effect: 2% increase in incertainty



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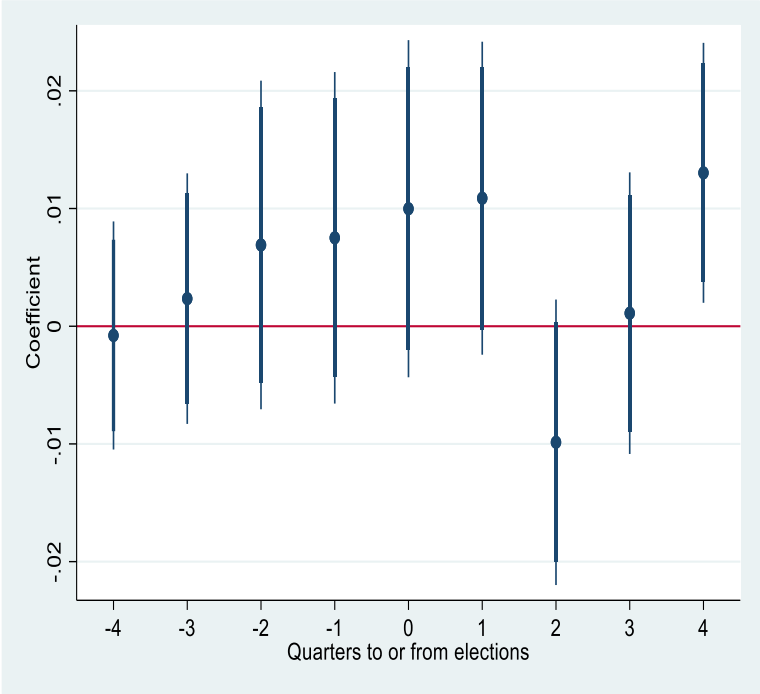
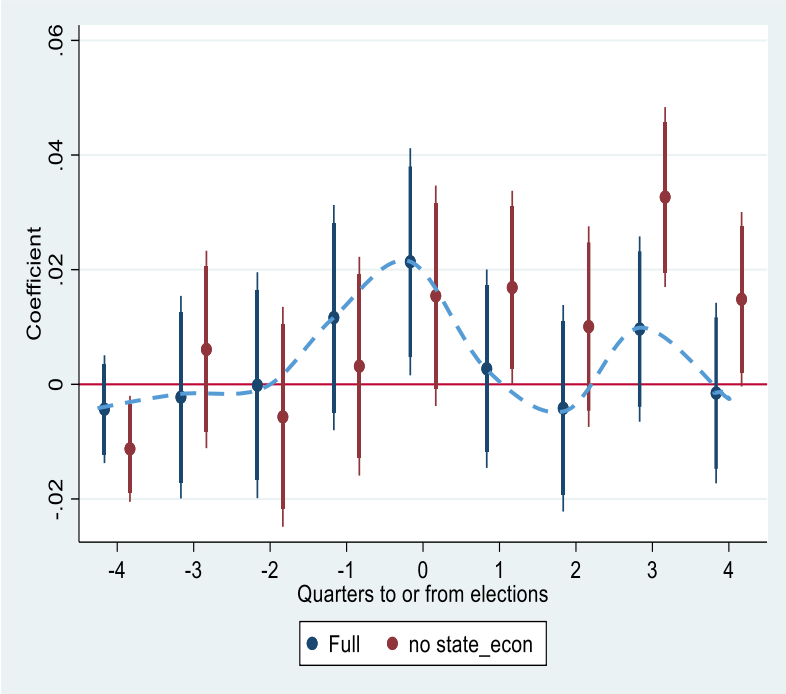
Does uncertainty increase around elections?

- INDU, 1982-2024, Robustness check
- German Election Dates vs Austrian Election Dates



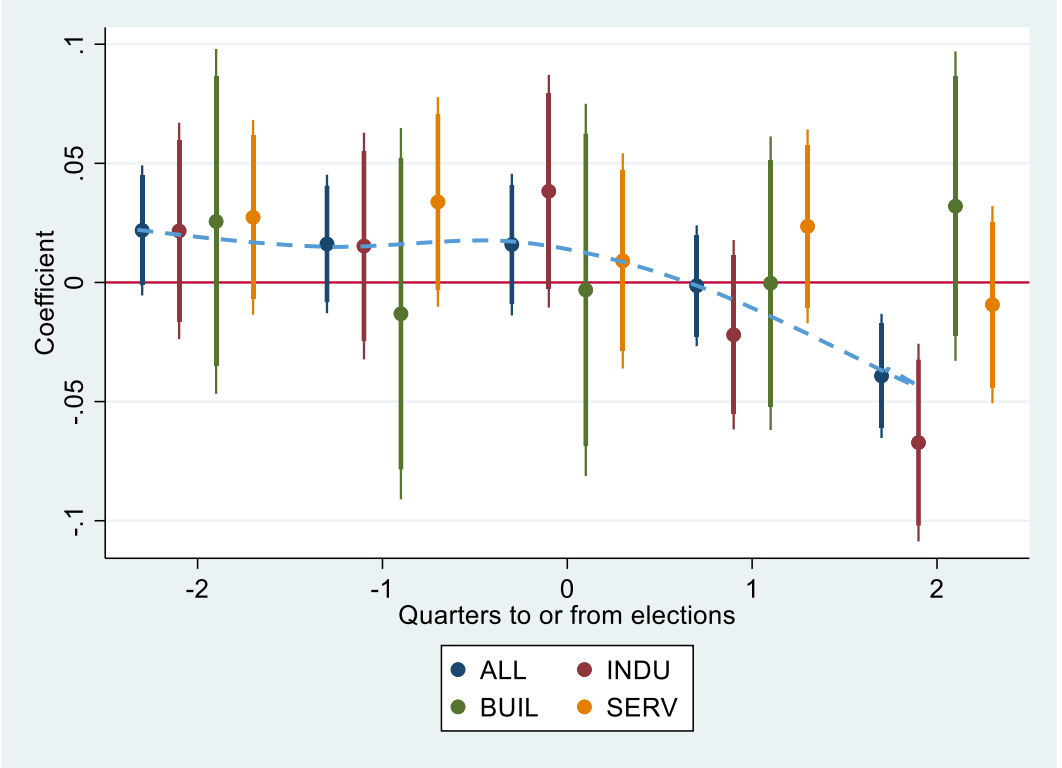


Does uncertainty increase around elections?

- All sectors, quarterly data, 2014 – 2024
- 3 elections

- Low coefficients, not stat. significant

- INDU similar as before but not stat. significant
- BUIL looks differently
- SERV higher before & around elections



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… movements of uncertainty perceptions …

15 The future DEVELOPMENT of our business situation is ...

- ☐ easy to predict
- ☐ moderately easy to predict
- ☐ moderately difficult to predict
- ☐ difficult to predict

- Up: increase in uncertainty
- Same: unchanged uncertainty
- Down: decrease in uncertainty

a) Industry (1982 - 2024)

	very low	med-low	med-high	very high	Total
very low	**76.3**	20.3	2.8	0.5	100
med-low	14.2	**70.2**	13.8	1.8	100
med-high	4.2	29.9	**55.9**	10.0	100
very high	2.6	11.6	33.8	**52.0**	100
Total	30.8	43.5	19.8	5.8	100

b) all sectors (2014-2024)

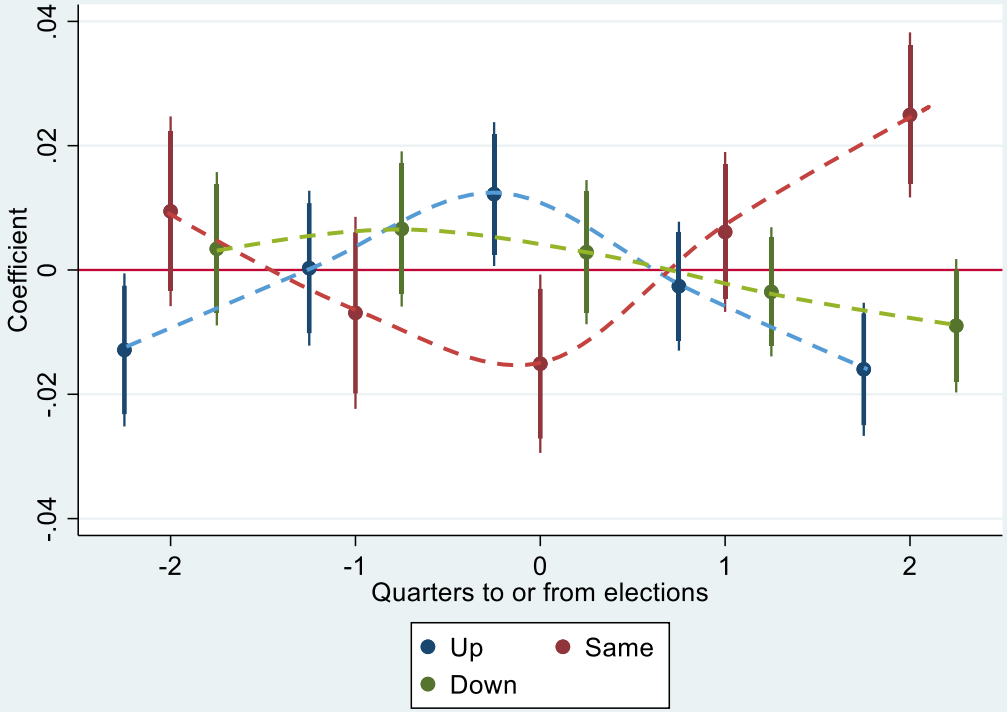
	very low	med-low	med-high	very high	Total
very low	**44.6**	48.4	5.6	1.4	100
med-low	3.1	**78.5**	16.7	1.7	100
med-high	0.4	21.4	**66.6**	11.6	100
very high	0.4	4.6	32.9	**62.1**	100
Total	3.2	49.2	35.8	11.9	100

… movements of uncertainty perceptions …

- Up: increase in uncertainty
- Same: unchanged uncertainty
- Down: decrease in uncertainty

- INDU, 1982-2024

- U-shaped for „same“
- Inverted-U for „up“ and to a lesser extent for „down“
- polarization during election times (?)
- Low coefficients (less than 2%)



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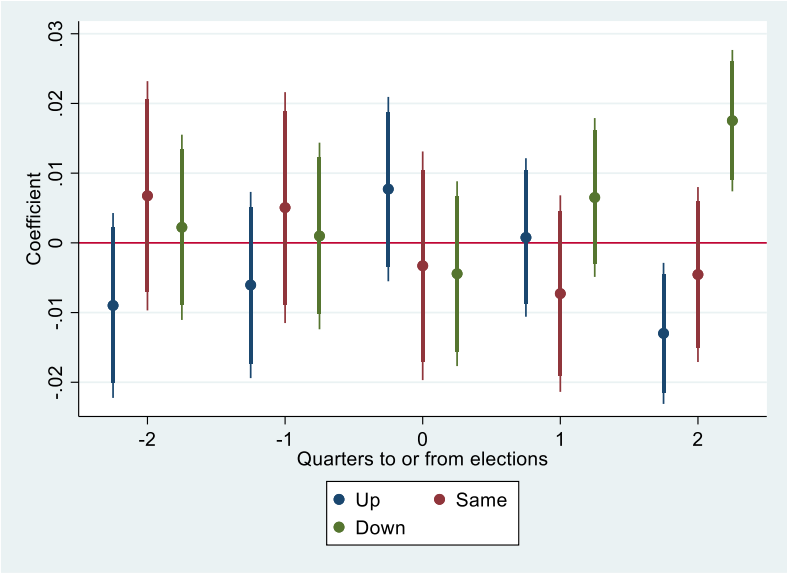
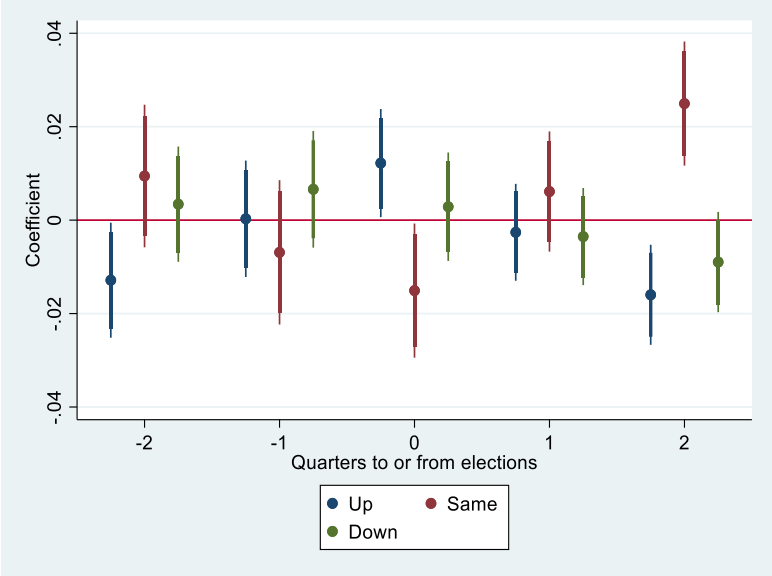
Robustness check

- INDU, 1982-2024, Robustness check
- German Election Dates vs Austrian Election Dates



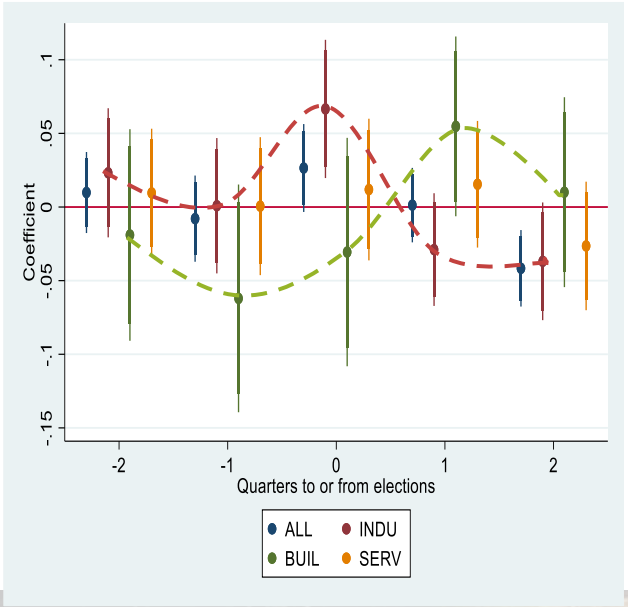


Sector results, 2014-2024

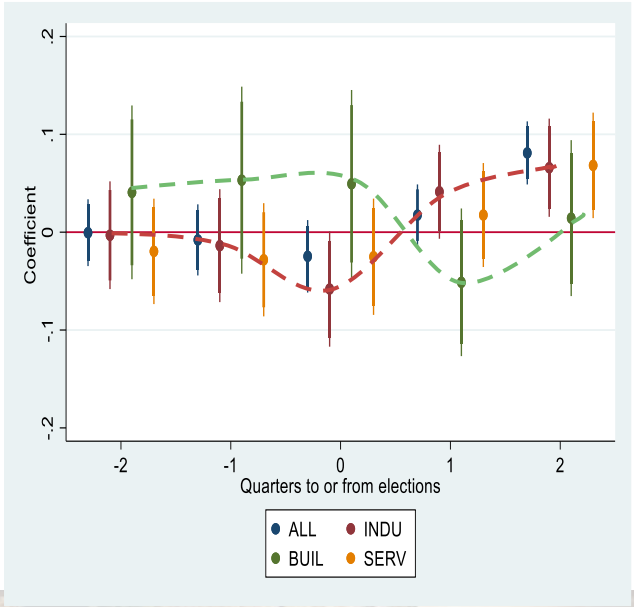
- All sectors, quarterly data, 2014 – 2024; 3 elections

- Very low coefficients; BUIL is different; INDU drives results for „UP“ and „SAME“

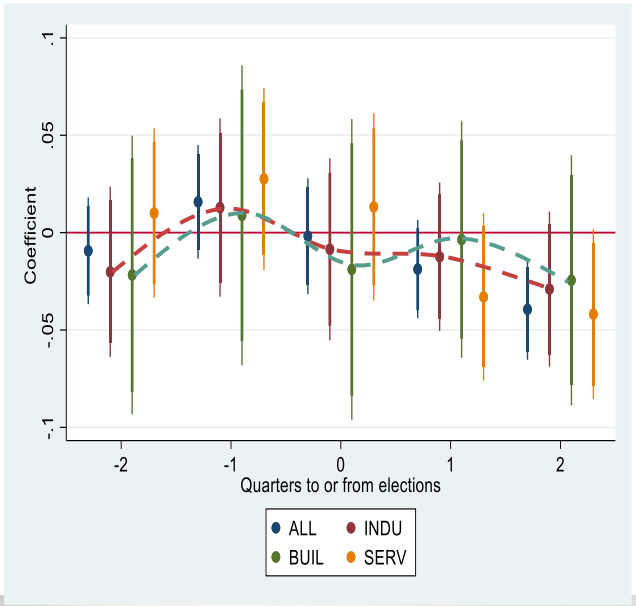
UP



SAME



DOWN



Concluding remarks

- Results are still preliminary

- Do elections impact uncertainty:
  - No aggregate ("bird's-eye") evidence
  - There seem to be a systematic but very weak link (coefficients/significance)
  - Elections are not important drivers of economic uncertainty in a small open economy

- Further work:
  - Political polarization, closeness of elections & the rise of populism
  - Single elections
  - microdata on uncertainty for different countries to conduct a true event study

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Thank you

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