When does the Circle Break?
Good Governance vs. Support for the Incumbent

by

Diana Elena Burlacu <burlacu_diana-elena@ceu-budapest.edu>
Department of Political Science, Central European University, Budapest

This paper aims to examine whether good governance matters in elections and how strong its impact is relative to the role of economy. Voters have been showed to care mostly about the economy and have low skills in assessing the quality of governance, while politicians promise economic prosperity more often than efficient bureaucracy or better regulatory practices. Using data from 158 elections in 29 countries, I found that, contrary to voter myopia assumption, good governance is an important predictor of electoral support for the incumbent. Voters care about governance almost as much as they care about the economy, and the incumbent is held accountable for both of them. However, the slow change in the former makes it difficult to observe its impact in most of the elections.

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Good governance has been promoted as aid conditionality for developing countries, and state efficiency within the OECD countries. Yet, the consensus in political science literature is that national politics and elections are all about economy and not time-consuming strategies for improving governance effectiveness. Most of these studies are based on the assumption of voter myopia: voters react mostly to economic changes before the elections. In addition, they are seen as ignorant and unskilled to assess the quality of governance and punish the incumbent accordingly. Politicians promise then economic prosperity more often than efficient bureaucracy or better regulatory practices, especially because of its higher perceived electoral potential.

Building on previous literature on accountability, governance, and contextual effects, this paper aims to examine whether good governance matters in elections and how strong its impact is relative to the role of economy. The expectations are that incumbents are held accountable not only for economic performance, but also for the quality of governance during the electoral term. This proposition may seem intuitive, but one could argue that the quality of governance is not a salient issue in voters’ daily life, it does not affect them directly; elections are all about the economy, and well-performing institutions’ impact on individual behavior is difficult to be measured. One also may question the feasibility of holding the government accountable for the performance of institutions it does not control directly.

The rest of the paper proceeds as following. In the next section, I review the previous literature on good governance and its consequences on electoral behavior. The following section presents different arguments on why voters are expected, or not, to keep the government accountable for the performance of the institutions. Then, these hypotheses are tested empirically, examining the effect of different aspects of
good governance on electoral outcome relative to the role of change in economic growth. Last section discusses the results.

**Good Governance and Accountability**

In the last decades, the new topic of well-performing institutions – good governance vs. malfunctioning governments, has increasingly attracted the attention of social scientists and international organizations. The discussion has moved from non-democratic vs. democratic regimes, to well-functioning institutions vs. poor governance. In 1994, United Nations Development Programme (UNPD) published a first document entitled “Initiatives for Change” which states the main goals of governance initiatives. In 1997, in *Governance for Sustainable Human Development*, governance was defined as:

> “the exercise of economic, political, and administrative authority to manage a country’s affairs at all levels, comprising the mechanisms, processes, and institutions through which that authority is directed. Good governance is, among other things, participatory, transparent, accountable, and efficient”
> *(UNDP, 1997)*.

Good governance has become not only a means to promote economic development in developing countries, but also a political norm in prosperous democracies. Well-performing institutions are essential not only for the economic or political development (Acemoglu, Johnson, and Robinson 2001; Grindle 2007; Mauro 1995; Rodrik, Subramanian, and Trebbi 2004), or the efficiency of public spending (Holmberg and Rothstein 2009; Rajkumar and Swaroop 2008), but also for political

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1 Without a well-defined theory of governance, the definitions of governance and good governance abound (see Grindle 2007 for a review of these definitions).
trust (Anderson and Tverdova 2003; Rothstein and Stolle 2009) and individual happiness (Bok 2010; Helliwell and Huang 2006).

When one talks about good governance, there are different aspects to consider. On the one hand, national states have the role to protect individuals’ property rights and freedom of enterprise, and provide contract enforcement, control of corruption, or rule of law. These are some of the main principles the international community requires each country to follow. On the other hand, states must also assure basic infrastructure, a good education and health system, or efficient bureaucracy in order to facilitate economic development and social wellbeing.

Previous literature on political accountability has looked mostly at the role of economy in elections, and showed that voters reward the incumbent for good times and punish it for poor economic performance accordingly (see Anderson 2007; Kiewiet and Lewis-Beck 2011; Lewis-Beck and Nadeau 2011, for a review of economic vote literature). The incumbent is also said to be held accountable for fiscal policies, war causalities (De Mesquita and Siverson 1995) or natural disasters (Gasper and Reeves 2011; Healy and Malhotra 2009). If so, one could expect that politicians are liable also for the well functioning of political institutions.

The number of studies on quality of governance in voting behavior literature is, however, tiny compared to the ones on economic voting. Pattie and Johnston (2001) argued that government performance had been assessed in voting literature by economic performance, but other retrospective evaluations apart from the economic growth are important in individual vote decision. The quality/performance of public institutions is one of them. Scholars found that evaluations of education standards, National Health Service standards, level of crime, the prosperity of their area, or health care affect voters’ support for the incumbent and/or its popularity (Bartle 2003;

Other studies have looked at the influence of governance in elections at the local level. James and Peter(2007) and Boyne et al(2009) showed that local governance performance, ranging from crime rates and school performance league tables to measures of bureaucratic efficiency, matters in British local elections. British people exhibit negative bias; they punish the poor performing local incumbents, but do not reward them for improvements in governance. Oliver and Ha (2007) found that the evaluations of local government performance correspond with incumbent support in American suburban elections, but “the overall impact of retrospective evaluations are comparatively small because, unlike in national politics, most suburban voters seem pretty happy with their communities” (Oliver and Ha 2007, 400).

When it comes to the role of governance in national elections, most of previous studies have focused only on control of corruption. Some scholars argue that the government is punished for the rise of corruption (Fackler and Lin 1995; Peters and Welch 1980; Welch and Hibbing 1997), while others were skeptical about the role of corruption and allegations of corruption in throwing the rascals out (Manzetti and Wilson 2007; Shabad and Slomczynski 2011). There are also other aspects of governance to consider: e.g. bureaucracy performance, regulatory practices or judicial efficiency in elections.

**Do voters react to the quality of governance?**

The “responsible party government model” hypothesizes that voters control the incumbent politicians based on their judgments of performance, and use their
votes to punish or reward them for past performance (Jones and McDermott 2004; Ranney 1982). In the voting behavior literature, the responsible party government model has been mostly used to explain the economic vote (Fiorina 1981; Hibbing and Alford 1981; Lewis-Beck and Stegmaier 2000). Studies have looked at either macroeconomic indicators (e.g. economic growth, inflation, unemployment) or voters’ household economic conditions, and showed that electors “vote the rascals out” of office and choose a better option when economy declines. Voters can, however, blame the government for other issues that affect their life and daily activity. One example could be the policy-making process (Hibbing and Theiss-Morse 2002, showed that citizens respond and care about this aspect of governance) and the performance of governance, accordingly.

Contextual effects theories argue that people are attentive to the environment surrounding them, and form opinions and evaluations based on personal observation, informal and organizationally based interaction and mass media (Books and Prysby 1999; Cox 1969; see also Marsh 2002, for a critical review of contextual effects). Voters observe public officials and institutions, and evaluate their performance. In addition, they interact and discuss with other individuals about their experience with political actors, bureaucrats, and other public officials, and adjust their perceptions accordingly. They also experience the outcomes of governance in schools, hospitals, or other public institutions and learn from media about the performance of institutions in other communities. These perceptions are generalized then for the national governance.

In a country with a high level of corruption, people consider officials corrupt, and believe “even people whom the law requires to act in the service of the public cannot be trusted” (Teorell 2009). In contexts with inefficient bureaucracy,
individuals deal with red paper and incompetent public officials, hear about the ease of implementing public policies, and conclude that the bureaucratic system does not work. For those voters who try to build a business, governmental regulations and the ease of dealing with administrative issues give them cues to evaluate governance performance. Citizens also can infer about the quality of governance by learning about the level of crime and judicial efficiency, or how performing the schools, hospitals, public transportation or communication systems are.

Individuals may or may not know which actors, organizations, or institutions are responsible for the governance performance, they may or may not differentiate between the central government and non-governmental organizations’ role, but if they react to the quality of governance, they will blame the actors who have political legitimacy or can be held accountable. In the new governance mode (i.e. private-public collaborations), central government is still one of the actors that citizens elect directly, and studies showed that people manifest a stronger preference for the organization and control of public services in the hands of elected bodies (Miller and Dickson 1996). Despite the increasing devolution process, central government still has the decision power over many social and economic issues, and voters can sanction it for the quality of its institutions.

There are arguments, however, that voters do not have all information necessary to assess the quality of government and the clarity of responsibility within the political system conditions their ability of identifying whether the incumbent is to be blamed for the existent conditions. It is often suggested that democratic accountability and the delegation process are problematic because agents and principals have conflicting interests and principals lack information about their agents’ activities (Strøm 2000). Some scholars, nevertheless, claim that the paradox of ignorance (i.e.
the claim that the rational voter is uninformed about economic and political issue) exaggerates the degree of voter lack of political knowledge (Aidt 2000). Others argue that and voters use cues efficiently to make reasonable decisions and evaluate officials’ activity (Lupia and McCubbins 1998).

Scholars have showed that voters are still able to assess the real economic conditions and make evaluations of economic performance (Kramer 1971; Lewis-Beck and Paldam 2000; Sanders and Gavin 2004). While some studies on governance have found little correlation between the subjective and objective measures of government performance (Kelly and Swindell 2002; Van Ryzin 2008), other studies suggest that citizens were accurate in their predictions of the conditions of public services in their community (Ostrom 1999), and conceptually similar subjective and objective indicators were found to be statistically associated (Parks 1984).

One argument, often used in economic models of voting, is that electoral accountability process is contingent on political context. Different institutional features (i.e. coalition cabinets, number of parties, division of power between the cabinet and legislature) obstruct the clarity of responsibility of political parties and voters cannot identify which party to punish or reward for past performance (Duch and Stevenson 2008; Lewis-Beck and Nadeau 2000; Powell and Whitten 1993). Additionally, new developments in public policy and administration theories of governance have showed that the decentralization of decision power to non-governmental actors (private or public-private collaborations) makes it even harder for voters to distinguish the role of political actors in promoting good governance (Chhotray and Stoker 2009; Rhodes 1999; Richards and Smith 2002; Tuohy 2003). However, national and local political actors are the only ones who have decision
power, and can change the public service providers. A recent study indicates that, indeed, political accountability is important in promoting good governance (Adsera, Boix, and Payne 2003).

**Expectations**

Despite the contradictory arguments towards electoral accountability of governance, we have reasons to believe that governance matters in elections, and voters should pay attention not only to economy, but also the quality of governance in a democratic system. I expect declines in good governance to erode electoral support for the incumbent, while an enhancement of its performance to bring more votes to the party/parties in power.

Without a clear theory of governance, I choose the UNDP (1997)’s definition of good governance, and focus on the quality of the mechanisms, processes, and institutions through which authority is directed. Without a clear description of these processes and mechanisms, previous research have focused on six features of governance, proposed by the World Bank’s indicators: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption (Kaufmann and Kraay 2008; Kaufmann, Kraay, and Mastruzzi 2010). Among these six characteristics, this paper focuses on: judicial system, bureaucracy, control of corruption, and business regulations.

The electoral support of these aspects of governance is expected to vary. Voters and mass media pay attention more to some aspect of governance than others, so their consequences on electoral outcome are expected to differ, accordingly. Political unscrupulousness is a more engaging topic for both media and voters than bureaucratic efficiency, while regulatory quality is of interest mostly for citizens
involved in a business. We also expect that, if significant, the role of the quality of governance in getting the incumbent reelected is comparable to the role of economic performance. Economy may be the key to assure popular support, but voters cannot enjoy the benefits of an economic boom if the institutions and governance mechanisms are not performing well. And even if the incumbent would receive voters’ appreciation for their economic performance, they would be punished for the difficulties and drawbacks voters encounter when interacting with the political and public institutions.

**Research Design and Analysis**

In order to test empirically for the effect of governance on election outcomes, one needs data for vote share of the incumbent and corresponding indicators of quality of governance for two consecutive elections. In this paper, incumbent support is calculated from the ParlGov database (Döring and Manow 2011), which provides the election results for 38 European and OECD countries between 1900 and 2012. The response variable is change in vote share for the incumbent between two consecutive elections. For elections when the prime minister party was in a pre-electoral alliance or the party split during the electoral cycle, we would have to disentangle its vote share from the vote share of the alliance in order to calculate the dependent variable for these elections. Considering the level of measurement error these calculations could add to the dependent variable, I decided to drop those elections from our dataset. Given that the available indicators for governance performance are between
1984 and 2011, the analysis includes only 154 parliamentary elections in 29 countries².

Because of the nature of the data, each case is an election in country c at time t. Given the restriction we had in selecting the electoral cycles, all the elections between 1990 and 2012, and in some countries, only few elections are considered. Thus, we cannot use panel data analysis, but still have to control for the dependence between multiple elections in the same country. To do that, I use the Huber-White standard error clustered according to country (Hellwig and Samuels 2008).

Governance is measured using the International Country Risk Guide (ICRG 2012) indicators of bureaucracy efficiency, corruption, business regulation, and judicial effectiveness. The ICRG indicators are calculated based on the evaluations of the Political Risk Group (PRG) editors using pre-set questions about the political risk in each country. This dataset has indicators available for all elections between 1984 and 2011, which gives us more cases than other datasets on quality of governance available (e.g. the World Bank indicators of good governance are available only from 1996)³. The ICRG indicators are calculated using identical rules for all countries, which makes the cross-national comparison possible, as to other indicators of governance measured based on national experts or public opinion surveys (e.g. World

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³ The description of the governance indicators is available in Appendix 1.
Bank Good Governance Indicators or Transparency International indicator of Control of Corruption).

In order to measure support for the incumbent, I use the change in vote share for prime minister’s party from last elections. Similar results are obtained when I calculate support for the incumbent as the change in overall vote share for the coalition parties in the cabinet. If there were several cabinet changes during the term, I consider the change in vote share for the prime minister of the last cabinet formed before the elections. The key independent variables are percentage change in governance during the electoral cycle: corruption, bureaucratic efficiency, business regulation, judicial effectiveness, and overall quality of governance\(^4\). I also tested same models using the change in governance before the cabinet’s electoral term, considering that in case the cabinet was named in power later in the electoral cycle and could not be blamed for the governance performance of the whole electoral cycle, but the results were similar to the ones where governance is change in governance during the cycle. High values of these variables indicate an improvement in good governance, and thus a decrease of the political risk in the country.

Compared to the volatile leading indicators of economic conditions (e.g. unemployment, inflation), quality of governance is a slowly changing dimension of government performance. In our sample, the level of corruption remained constant in over 53% of electoral cycles in the analysis, while the overall governance in 13% cases. Figure 1 presents the distribution of percentage change in low corruption and good governance from last elections. The change in corruption varies from -50% to 46%, while changes in overall governance are between -16% and 34%. The biggest drop in overall governance was -0.75 in Poland (from 1997 to 2001), while the

\[^4\text{Change in governance} = 100\% \times (\text{the level of governance in current election year } - \text{ the level of governance in last elections year})/ \text{the level of governance in last elections year}\]
The biggest improvement was 1.25 in Hungary (from 1994 to 1998). Using change in governance in one electoral cycle/term and not in the year before elections (as we do for economic growth) offers us a higher variance of this variable, and a higher certainty that voters have time to notice the slight changes that occurred.

[Figure 1 – about here]

Voters may answer to the level of governance efficiency instead of the change in governance during the electoral cycle. Thus, a variable measuring the level of overall governance in the year of the elections - *good governance* - is included in the model. Because of the strong association between governance and economic development (see Gradstein 2004; Kurtz and Schrank 2007, for a summary of the disagreement in the literature over the direction of this relationship)\(^5\), I also control for the level of *economic development* (measured as GDP per capita in thousand of dollar after a logarithmic transformation -IMF).

The other control variables included follow the literature on the main determinants of electoral support for the incumbent. I include *economic growth* (year percent change in real GDP in the election year - (IMF 2012) ). To address potential differences in government support due to the democratic quality, I control for *democratic experience* (measured in years since the country had the first democratic election from the Polity IV database (Marshall and Jaggers) ). The number of years of democracy is preferred to the polity rating measure, since the latter includes other aspects of institutional quality that could be directly linked to governance indicators. I also control for the *prime minister party ideology* (measured as the mean value in left/right dimension - ParlGov) and include a *coalition* dummy accounting for whether the incumbent is a single party or a coalition, and a *recession* dummy for

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\(^5\) the correlation between good governance and GDP per capita in our sample is .65,
whether the election took place before or after the economic recession in 2008. To take into account the stable base of political parties given the partisanship and social cleavages in the country, I include previous vote share for the incumbent in the previous elections (measured for the prime minister party or coalition parties, accordingly - ParlGov). Powell and Whitten (1993) argued that using the results from previous elections gives identical coefficients in models using incumbent vote share or change in incumbent’s vote share as dependent variable. These models measure then how change in governance alters the base of support of the incumbent.

Results

All five OLS models explaining change in vote share for the chief executive (prime minister parties) are included in Table 1. Each model includes one of the five indicators of change in governance (i.e. overall good governance, control of corruption, business regulations, bureaucratic effectiveness, and judicial efficiency) and an identical set of control variables. At large, the coefficient estimates seem to support our expectations that incumbents benefit out of good governance and improvement in good governance - all coefficients are positive, thus an improvement in governance brings more votes to the government. A rise in overall governance gives incumbents an advantage in the next elections, and this effect is statistically significant for the electoral support of both prime minister party and coalition parties. Thus, PM parties receive on average 3.9% more votes for a 10% increase in governance effectiveness.

[Table 1 – about here]

Among all features of governance in the analysis, control of corruption and judicial efficiency are the only statistically significant one. However, a more
A conservative approach would suggest that change in judicial efficiency does not have a substantive effect (its 95% confidence interval is really close to 0 for both models of change in vote share for the prime minister party or all cabinet parties). One of the immediate explanations is that scandals of corruption are highly publicized by media and capture citizens’ attention faster than debates about bureaucracy or business regulations. It could also be that the opposition discourse against the government is more forceful when it comes to corruption and the blame is directly linked to the cabinets’ members. A debate about corruption brings into discussion also the quality of judiciary system, thus the statistically significant coefficient of its change. A prime minister party can increase, on average, their support in future elections by almost 1.4% of votes, if corruption decreases by 10%, keeping everything else constant.

A quick look at the control variables included in the analysis\(^6\) shows that a 10% economic growth brings on average 5.7% more votes to the incumbent. Incumbents with a large base—a high absolute vote received in the last elections (previous share) - lose electoral support easier in the next elections. Looking at the positive statistically significant coefficient of economic development, one can say that, all else equal, incumbents have an advantage in prosperous democracies. The interesting fact in Model 1 is that the level of governance in the election year has a negative significant coefficient. One would expect incumbents to be rewarded when institutions behave. This is indeed the case when we do not control for the change in governance or the level of economic development (the coefficient of good governance is positive). When the level of economic development (GDP per capita) is measured in $1000 without a logarithmic transformation, the coefficient of good governance is

\(^6\) The discussion of the control variables is based on the results from Model 1 in Table 1. This is the model with overall governance and the highest R-square indicator. A coefficient is considered statistically significant at a 5% significance level.
around -0.6 and not statistically significant. Thus, one should be careful with the inferences made based on this specific indicator. All the other control variables in the model do not have statistically significant coefficients, but if they would, their effect would be as expected: in a coalition, the prime minister party is more vulnerable and can lose more of its previous support and after 2008, the incumbents has lost more votes than before the financial crisis.

[Figure 2 – about here]

Figure 2 presents graphically the coefficients of economic growth and change in governance extracted from Table 1. All these variables are measured in percentage change, so we can compare their impact by comparing their coefficients. As we expected, some aspects of governance matter more in elections than others. Corruption is the element with the strongest impact among the features of governance, while business regulations have the smallest average effect. Their joint effect (overall good governance), however, is an important predictor of prime minister’s electoral support in an absolute sense or relative to economic growth. Figure 1 makes it clear that the effect of economic growth is higher than the role of governance in all models except the one where change in overall governance performance is used (Model 1). The average effect of economic growth on incumbent’s support is 50% higher than the average impact of a similar improvement in governance. Prime minister party loses on average 5.7% votes for a 10% decline in economy, and around 4% votes for a 10% drop in the quality of governance (this comparison can take into account the fact that the 95% confidence intervals of these estimates overlap).
Quantities of interest

To have a better look at how governance affects incumbent’s results, I calculated the expected change in vote share for the prime minister across the observed change in control of corruption or good governance, when economy increases and decreases by 3% (its standard deviation). Figure 3 presents the expected change in vote share for the prime minister party in single party cabinets, with 34% vote share in previous elections and a moderate ideological program, in countries with 50 years of democracy, an average level of economic development and overall governance in the election year, before the economic crises in 2008.

[Figure 3 – about here]

When there is a decline of 3% in economy\textsuperscript{7}, an incumbent with 34% electoral support in the previous elections can keep its support in the next elections if there is an increase in governance of more than 15% (the average expected value is almost 0, with a 95% confidence interval of -4,4). When the economic growth is of 3%, changes in good governance smaller than 5% lead to declines in the electoral support for the prime minister party. This can lose on average 6% of votes if the quality of governance drops by 10% (95% confidence interval: -8.5, -3.3). For a 10% increase in good governance when there is a 3% economic growth, bring incumbents 2% more votes than in the previous elections. In our sample, a 10% increase represents no more than half a point increase of ICRG index which would bring up to 2% extra electoral support to the prime minister. A similar positive outcome may be obtained if corruption drops by 20%. However, despite the electoral benefits that a 3% economic growth may bring, if the overall governance declines by 10%, the incumbent can lose

\textsuperscript{7} Economic growth has a mean of 2%, with a minimum of -8% and a maximum of 12%.
from 3% up to 9% of its electorate. This seems a good reason for incumbents to invest in good governance during their term.

Error in Change in Censored Governance indicators

In Figure 1, we can see that in many cases, governance does not change, and if it does, the change is not high given the low upper bound of the governance indicators. For high values of the governance indicator (four, five or even six on a six point scale) the change in governance cannot be more than 50%, 20% or no change accordingly. In the latter case, the ICRG editors would not report any change even if there would be one. One could argue that using censored indicators of governance in calculating the change in governance leads to measurement error, which then leads to biased coefficients. To see how the impact of governance and economy would differ if the indicators of change in governance would not be measured with error, I used the method of simulation extrapolation for fitting models with additive measurement error (SIMEX - Hardin, Schmiediche, and Carroll 2003). I did not have any replicate measurements, so I considered two possible cases: when we have a 80% or a 90% reliability in the change of governance. This was necessary in order to specify the measurement error variance as the variance of the indicator weighted by different reliability levels.

In Figure 4 we can see that the estimated coefficients of change in good governance are higher when one controls for the measurement error, and the coefficients of economic growth are biased towards higher positive values when there is measurement error in the change in governance. The difference between the simex and naïve estimates is significantly smaller than in the graphs in Figure 4 when we
exclude from the model, the level of good governance in the election year, which could also suffer of the same measurement error. Using the simex method does not solve, however, the recent issues concerning the uncertainty in the estimation and nature of the governance indicators (Bovaird and Löffler 2003; Devarajan and Johnson 2008), Fortunately, the ICRG indicators are one of the most reliable indices used, with almost 30 years of work in this field. In a nutshell, the impact of governance in the elections is found to be even higher than our model estimated in Table 1, if one assumes that the change in good governance is measured with error and tries to control for that.

Discussion

Domestic politics is not a closed circle game when it comes to governance. Elections are not only about economy or social issues, but also about the quality of political institutions. Despite the fact that governance is still a mysterious, fuzzy concept in voters’ day-by-day life, incumbents lose their support when there is a decrease in the overall quality of governance or a rise in corruption, and are rewarded when institutions perform better. Politicians have then reasons other than aid conditionality or international pressure to focus on governance, since 10% improvement brings on average 4% more votes.

When we compare the role of governance and economy in elections, it might seem that economy still has the advantage measured as 6% extra votes for the incumbent for a 10% economic growth. However, governance and economy are interconnected systems and a chief executive will have problems choosing to focus its resources only on promoting economic growth without considering governance, since economic development is contingent on good political institutions and, at the same
time, fosters good governance. Thus, a comparison between economy and governance seems unreasonable and governments need to find a balance between the two, and not only focus on economy, if they want to stay in power.

When one talks about good governance, the first thought goes to political corruption. This is indeed one of the only features of governance that has a statistically significant effect in our models of electoral outcome, but its impact is a quarter of the overall governance effect. Based on the election results, one could say that politics is not only about corruption and, despite the prompt reaction of voters and mass media to corruption scandals, political misbehavior is just one aspect of governance that matters in elections. Other features of good governance – i.e. bureaucracy, business regulations or judiciary system – have a joint effect on support for the incumbent. Their small independent effect can be explained by the low interest the average voter pays to each of them, separately. Business people, for example, have a special self-interest in how businesslike the bureaucratic system is or what business regulations are implemented. This can then be reflected in the campaign contributions companies decide to make to the incumbent, given the performance of these institutions in its mandate.

One risk researchers need to avoid in using aggregate level analysis is the ecological fallacy. This paper does not make inferences about voters’ perceptions of governance and how much this matter in vote decisions. This will be a new line of inquiry into public opinion about governance and its role in vote decisions. Future research will show whether individual assessments of the quality of governance follow the changes ICRG or World Bank indicators measure and how much this matter for final vote decision. Governance evaluations can be a key independent factor explaining voting behavior or they can be incorporated in voters’ evaluations of
overall government performance, which many studies have already showed to be relevant in re-electing the incumbent.

The results of this paper, showing that politicians should pay attention to governance if they want to keep their position, have important implications for the general debate on electoral democracy. Until the twentieth century, nondemocratic systems were the rule and norm in the world. Until recently, a majority of human beings have proclaimed the superiority of democratic systems. Nowadays, however, electoral democracy is seen as a necessary, but not sufficient condition to an efficient governing process. The aim is to have not only a democratic system focused on economic development, but a well-performing governance that assures transparency, accountability, efficient business regulations, a low level of crime and corruption. In this paper, we saw that, at least from an electoral perspective, good governance does matter in elections, and it is not only about the economy.
Figure 1. Kernel density of percent change in low corruption and good governance

Note: Estimated using the kernel(epanechnikov) function, bandwidth=2
Figure 2. The coefficients of economic growth and change in quality of governance indicators in 5 different models of support for the incumbent and their 95% confidence intervals

The dot points represent the estimate coefficients of the percentage change in each governance indicators from last elections in a model predicting vote share for a prime minister party. The rhomb points represent the estimate coefficients of the economic growth in Models 1-5. The horizontal lines indicate their 95% confidence intervals calculated based on robust clustered standard errors. The detailed results of all 5 models are presented in Table 1. Similar results are obtained when one uses percentage change in governance during the cabinet’s term or when the dependent variable is change in vote share for all cabinet parties.
Figure 3. Expected change in vote share for the prime minister party across the observed range of good governance from last elections

Note: Expected values calculated for the observed values of change in governance using Clarify (King, Tomz, and Wittenberg 2000). The vertical lines represent 95% confidence intervals of the expected values on the black line.
Figure 4. The coefficient estimates of change in good of governance and economic growth, and the effects of measurement error in variable change in good governance in models of support for the incumbent

Note: The graphs show the coefficient estimates for change in quality of governance and economic growth in Model 1 (Table 1) when there is measurement error in variable quality of governance and the reliability of this indicator is 80% (upper graphs) or 90% (lower graphs). The estimated coefficients are calculated as a quadratic extrapolant of the scale factor $\theta_j(lambda)$, for how much extra measurement error is added to the error-prone variable. The dots represent the average of the estimated coefficients from the 50 runs (simulations) for each scale factor $\theta_j(lambda)$. When $\theta=0$, the estimate is the coefficient from a naïve regression, where we assume that our indicator was measured without error. When $\theta=-1$, we get the simex estimate correcting for the measurement error for 90% or 80% reliability. Higher values of lambda represent extra measurement error in variable change in good governance. The differences between the simex and naïve estimate are significantly smaller when one excludes the level of good governance from the model.
Table 1. Ordinary Least Square Regression of Change in Vote Share of the Prime Minister Party

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<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
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<tr>
<td>Previous Vote Share</td>
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<td>-0.273***</td>
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<td>(0.079)</td>
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<td>(12.40)</td>
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Observations 154  154  154  154  154
R-squared 0.356  0.336  0.289  0.268  0.275

Robust standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

Note: similar results are obtained when we estimate the same model for change in vote share for the cabinet parties, or when we consider the change in governance during the cabinet’s term, and not the electoral cycle.
Appendix 1

ICRG Indicators of Quality of Governance

All indicators were coded or recoded on a scale 0 to 6, where high values represent good governance, thus low-risk countries.

**Control of Corruption** – the indicator measures the level of corruption within the political system. Corruption is seen as excessive patronage, nepotism, job reservations, 'favor-for-favors', secret party funding, and suspiciously close ties between politics and business.

**Bureaucratic Effectiveness** – measured by the Bureaucracy Quality ICRG indicator, it assesses the institutional strength and quality of the bureaucratic system, whether the bureaucracy is autonomous from political pressure, has an established mechanism for recruitment and training and can govern without drastic changes in policy and interruption in government services.

**Business Regulation** – measured by Investment Profile ICRG indicator - is an assessment of factors affecting the risk to investment that are not covered by other political, economic and financial risk components. The initial risk rating assigned is the sum of three subcomponents, each with a maximum score of four points and a minimum score of 0 points. A score of 4 points equates to Very Low Risk and a score of 0 points to Very High Risk. The subcomponents are: Contract Viability/Expropriation, Profits Repatriation and Payment Delays.

**Judicial Efficiency** – is measured by Law and Order ICRG indicator. The Law sub-component is an assessment of the strength and impartiality of the legal system measured on a scale from 0 to 3, while the Order sub-component is an assessment of popular observance of the law, also measured on a scale from 0 to 3.
References


ICRG. 2012. "Researcher Dataset (ICRG T3B - Political Risk)." In, ed. Inc The PRS Group. East Syracuse NY.


