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FINANCIAL BAILOUTS AND THE DECLINE OF ESTABLISHMENT POLITICS.

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Abstract

This article identifies and tests a mechanism to explain how exposure to financial bailouts accounts for the electoral decline of establishment parties. Given the limitation of economic voting theories to fully explain the electoral shifts observed in Europe from 2010 onwards, this research develops a different explanation. Citizens who were exposed to the macroeconomic conditions of financial bailouts not only observed the consequences of drastic fiscal adjustment packages but, possibly, also underwent a process of political learning. By putting economic responsibility before policy responsiveness, establishment parties showed citizens that voting for these parties did not necessarily implied policy change. This political learning led some citizens not to vote for these parties in subsequent elections. These theoretical claims are tested using individual data from the sixth round of the European Social Survey as well as data from European and parliamentary elections observed between 1991 and 2019 in eleven countries of the Eurozone.

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Introduction

In 2009, the financial crisis that travelled to Europe from the US soon became a currency crisis in the Eurozone. The fragility of the banking system in some countries, or the lack of sustainable macro-economic institutions especially labour markets or private debt in others, showed member-states of the European Monetary Union (EMU) that mechanisms like the excessive-deficit procedures (EDP) were probably insufficient to maintain the stability of the Euro. Political leaders decided that a better policy to safeguard the common currency was the use of financial bailouts whereby affected countries would receive financial relief in return for making considerable structural reforms to avoid the risk of debt default or further banking crash (Pisani-Ferry, 2014). Financial bailouts were implemented in Greece (2010, 2012 and 2015), Ireland (2010), Portugal (2011) and Spain (2012).

Bailouts were accompanied by severe fiscal-consolidation packages which affected citizens in recipient countries. However, financial bailouts also implied the use of public funds from sponsoring implementing countries to finance these financial relief packages. What are the electoral effects for parties that agreed and managed financial bailouts? In this paper, I argue that using bailouts as a mechanism to safeguard the Euro had negative electoral consequences for establishment parties that sponsored or managed these programmes. The effect, however, is expected to be considerably larger in recipient than in implementing countries. Between 1991 and 2009, the mean vote-share of establishment parties¹ in implementing countries was 60%; that level of support decreased to 48% in the period 2010-2019. For countries receiving a bailout, electoral support for establishment parties was 77% before the bailouts but 55% in the period 2010-2019.

Furthermore, this loss of support corresponds with the electoral collapse of relevant establishment parties. The most extreme example is probably the collapse of the social-democratic party *PASOK* in Greece. The party that was in government in 2009 with 44% of the vote only received 4.68% of support in the 2015 January general elections. Establishment parties also lost support in countries implementing financial bailouts. In Finland, for example, the support for liberal-conservative

¹In this article, establishment parties are those parties that either a) provide a PM or b) led the opposition in the period right before the beginning of the Euro-crisis (2010). The Electoral data comes from Armington et al. (2019).

parties in the period 2010-2019 was 35% compared with 43% in the period before any bailout was implemented. Moreover, the 2011 parliamentary elections in Finland saw the rise of anti-establishment party *True Finns*. Recent literature has shown that the impact of financial bailouts is, however, significantly greater in recipient than in implementing countries (Alonso and Ruiz-Rufino, 2020).

One way to understand the mechanisms by which these electoral shifts have taken place is by looking at the relationship between macro-economic performance and politics. Economic voting theory provides a well-developed theoretical framework confirmed by empirically solid and robust findings. The premises of economic voting are theoretically defined in the reward-punishment hypothesis whereby voters' evaluation of the economy inform their voting choice. In this assessment, the state of the economy plays a dominant role in the sense that economic performance at both individual and country levels determine the likelihood of re-electing the incumbent. Good economic performance increases the chances of re-election while poor economic conditions do the opposite (Lewis-Beck and Stegmaier, 2000). At the individual level, the hypothesis is articulated around the dyads of prospective versus retrospective voting and sociotropic versus egocentric perceptions of the economy (Lewis-Beck and Stegmaier, 2007). At the aggregate level, the main issues is to identify the mediating effect of clarity of responsibility (Powell Jr and Whitten, 1993). Using economic voting theory, the electoral volatility, especially on establishment parties, observed in the Eurozone between 2010-2019 could be explained by the deteriorating economic conditions observed during this period. Indeed, as Bosco and Verney (2012) document, governments were replaced in Greece, Spain, Portugal and Italy at the peak of the crisis in 2011. And, using individual data, the evidence linking voting behaviour with economic condition is also confirmed (Fraile and Lewis-Beck, 2014; Kosmidis, 2014; Bellucci, 2014).

Economic voting theory is, however, not free of challenges. According to Anderson (2007), the reward-punishment hypothesis may not provide all mechanisms needed to develop a full theory of democratic accountability. It is unclear, for example, how individuals access economic information (Aidt, 2000) or how they transform it into political preferences (Norpoth, 2001). At the aggregate level challenges to economic voting come not from clarity of responsibility but

from identifying whether there are viable electoral alternatives to the statu quo (Sanders and Carey, 2003) or how different contexts mediate institutional outcomes (Bengtsson, 2004). Moreover, the evidence that economic voting serves to explain electoral shifts in countries in receipt of a financial bailout is not unanimous at least in the case of explaining voting behaviour during the Eurocrisis (Magalhães, 2017).

By focusing not on individual incumbents or challenger parties but rather on the combined electoral performance of these parties, this article argues that the electoral shifts observed from 2010 onwards in the Eurozone were not only the consequence of adverse economic conditions (Lewis-Beck and Lobo, 2017) but also the consequence of an update learning process that took place among citizens when they were exposed, either as recipients or implementers, to financial bailouts. The literature has already identified an empirical association between shifts in individuals political attitudes and exposure to bailouts (Armingeon and Guthmann, 2014; Schraff and Schimmelfennig, 2019). Ruiz-Rufino and Alonso (2017) go, however, further to also announce a possible theoretical mechanism that identifies this empirical association. Focussing on citizens' satisfaction with democracy, these authors suggest that bailouts could trigger a Bayesian update learning mechanism about the way democracy works.

I develop and test this theoretical claim using a combination of analyses that include individual and aggregated data. I use individual data from the sixth round of the European Social Survey (ESS) to suggest one way to approximate the learning update process experienced by citizens affected by a financial bailout. This analysis is based on the difference between self-perceived and country-levels scores on certain dimensions of democracy. The second part of the empirical analysis uses aggregated data from 130 parliamentary and European elections that took place between 1991 and 2019 in countries that joined the European Monetary Union (EMU) in the years 1999 and 2001. This aggregated analysis tests whether a connection exists between the behavioural patterns observed at the individual level with the overall electoral performance of establishment parties before, during and after the implementation of bailouts.

Bailouts, parties and citizens.

The adoption of financial bailouts as part of the policy menu used to solve the Euro crisis that started in 2010 had implications for both parties and individuals. A useful way to see the underlying reasons of this relationship is by focusing on the consequences of the prior institutional adjustments made by parties, and accepted by citizens, to adapt to globalisation. Economic interdependence pushes establishment parties to facilitate institutional reforms that enhance their international economic competitiveness. These institutional concessions come at the expense of removing from nation states the full control of certain policies that were traditionally managed at the nation-state level, specially fiscal ones (Meseguer, 2009). Citizens comply with these reforms as long as some policy responsiveness is maintained and an increase in welfare is achieved. Furthermore, this balance between delegating policies and welfare is not challenged as long as the economy booms. In a moment of great economic uncertainty, however, establishment parties decrease their policy responsiveness and increase their institutional responsibility. As bailouts are ultimately decided as a policy response to safeguard the Euro, establishment parties choose economic responsibility over policy responsiveness (Laffan, 2014).

Once a financial bailout is decided and implemented, citizens soon learn the level of policy constraint imposed on nation-states as a consequence of the process of institutional convergence at the international level. Voters from implementing countries observe how they contribute financially to a policy which may not represent their preferred option (Bechtel et al., 2014). Citizens from recipient countries, on the other hand, experience the consequences of implementing the fiscal policies attached to financial bailouts on their level of welfare (Armingeon et al., 2016). In both scenarios, albeit with different intensities, voting becomes an empty exercise of choosing among undifferentiated policy platforms as parties put economic responsibility before policy responsiveness.

The combination of these two actions, individuals' political learning and political elite commitment with economic and institutional responsibility, informs the core of my argument. As figure 1 shows, bailouts affect simultaneously parties and voters when they are first implemented. On the one hand, parties face

a dilemma between honoring the institutional international commitments previously made or responding to citizens' increasing demands to maintain their level of welfare despite adverse economic conditions. On the other hand, the use of financial bailouts reveals citizens the extent of policy constraints faced by establishment political parties. Bailouts work, then, as a cognitive tool used by individuals to update their prior knowledge about democracy as they critically assess the role of political representation under the new scenario. In this updating process, individuals, more specifically those in recipient countries, become critical with the existing electoral supply-side given the institutional constraints faced by establishment parties to change policy paradigms about the state of the economy. As a result of this process, frustrated voters find electoral comfort away from the traditional established party labels. The following section explain this process in greater detail.

Figure 1: Bailouts, parties and citizens.

Globalisation and the tension between responsiveness and responsibility.

In 1964, A.H. Birch published his famous essay on representative and responsible government. The core idea of Birch's work is that, generally, governments face a natural tension between acting responsibly while assuring legitimacy. In other words, democratic rulers need to find a careful balance between making sure that their actions maximise societal common goods while at the same time reflect the preferences of their voters in order to remain representative (Birch, 1964, ch.1).

This discussion can be extrapolated to broader issues of political representation. Similar to Birch, Mair (2009) identifies that political parties also experience a tension between what he calls responsiveness and responsibility. While this tension has always existed and has manifested itself in different intensities over the years (Bardi et al., 2014), Mair argues that only in recent times the tension between responsiveness and responsibility is so large that it endangers political

legitimacy.

This balancing exercise between responsibility and responsiveness not only applies to political legitimacy but it also affects political representation. Let's assume that political representation can be approximated by the a principal-agent relationship (Lupia and McCubbins, 1998). Let's also assume that representation is implemented by political parties as institutional mechanisms to aggregate individual preferences (Aldrich, 1995). The act of voting becomes, then, an exercise of political accountability as elections are the instruments used by voters to assess the performance of parties (Przeworski et al., 1999). In this context, both responsiveness and responsibility constitute essential components of political representation².

The relationship between responsiveness and responsibility is not symmetrical and it is contingent on contextual factors (Bardi et al., 2014). There may be situations where parties put a greater weight on being responsive to citizens' demands but there may be others when the situation may be the opposite³. Overall, though, citizens always enjoy some level of responsiveness while accepting the governments acting responsibly. This article argues, however, that the institutional processes needed to adjust to globalisation has altered this balance significantly allowing party responsibility to trump policy responsiveness.

In industrialised democracies, increasing economic interdependence has been an unavoidable process and all Western democracies have participated in this policy convergence programme in order to retain economic competitiveness⁴. Consequently, choosing more or less globalisation is not a *de-facto* element of the

²Responsiveness refers to how parties interact with voters (Ferejohn, 1986). Following Mair (2009), responsibility does not just refer to governance as Birch (1964) first suggested but it also covers the actions of parties that previously were in office and may now be in opposition.

³Think of considerable exogenous shocks like a war or a natural disaster.

⁴The KOF globalisation index shows this trend clearly (Gygli et al., 2019). In 1985, when globalisation was just starting, the KOF globalisation index had an average value of 72.35 (standard deviation, s.d., is 7.79) in all twelve countries that joined the EMU in 1999/2001; in 2016, the KOF average value was 86.1 (s.d., 3.2). Countries that were part of the EU but not EMU, like Sweden and Denmark, show a similar pattern; the average KOF value in 1985 was 79.8 (s.d., 0.15) and 89.5 (s.d., 0.52) in 2016. Countries not member of the EU but members of the European Economic Area (Iceland and Norway) are less globalised on average but they increased their economic interdependence levels between 1985 and 2016 as the KOF values move from 68 (s.d., 13.8) to 79 (s.d., 9.5). Finally a former EU country, the UK, shows levels of globalisation (KOF globalisation index is 89 in 2016) similar to their EU counterparts.

policy menu for these countries. As the processes of economic globalisation are quickly assumed, industrialised democracies begin an adjustment process to find the best institutional designs that maximise their relative economic position vis-a-vis the rest of the countries in order to retain or increase market competitiveness (Rodrik, 2008). The electoral fate of establishment parties is connected to these adjustment processes. As globalisation kicks in, establishment parties, whether in government or in opposition, make, or agree with, institutional changes to adjust to higher levels of economic interdependence to maximise the benefits of globalisation (Rodrik, 2011). Countries, thus, seek to become more competitive at the international arena by, for example, lowering trade barriers and relaxing the rigidities of labour and financial markets (Williamson, 1993).

Furthermore, during this transformation process, the traditional post-war model of political representation is increasingly challenged as part of the new political institutional architecture implies a shift from a delegation to a trustee form of political representation (Caramani, 2017). The delegation political representation model mostly used after 1945 assumes parties act according to a mandate given by citizens (Manin, 1997). Under this paradigm, voters, as utility maximisers, choose the most optimal policy to enhance welfare but they also have procedural preferences about how policies are to be decided. In particular, policy-making - especially regarding public spending, taxation or redistribution - is expected to be determined mostly by the aggregation and ranking of individual preferences. On the other hand, parties, as vote maximisers, seek to deliver the policies that better respond to the preferences of the median voter (Wittman, 1983). Policies, thus, represent the most intense preference and governing parties receive a mandate to implement them. With the arrival of the newer trustee model, however, decisions are made regardless of such mandate as it is assumed that some technocratic body knows what is best for citizens (Sánchez-Cuenca, 2017).

This shift in how political representation is implemented challenges some of the assumptions put forward by the party-responsible model. Firstly, establishment parties agree on their need to adjust to globalisation by making credible institutional adjustments. Both opposition but, especially, governing parties do so for responsible but also for strategic reasons as chances of re-election may increase with good economic performance. Institutional concessions to globalisa-

tion made by establishment parties reduce, however, the room-to-manoeuvre for establishment parties as they, for example, assume a greater level of interference from non-elected bodies into the domestic policy process (Mair, 2009; Hellwig, 2015). Furthermore, these concessions typically carry a high cost to reverse.

Secondly, for citizens, globalisation challenges the procedures typically used to decide on a policy. In globalised contexts, political decisions depend not only on citizens' preferences but also upon the preferences of non-elected, non-accountable actors which, on certain occasions, may be in conflict with those held by citizens. This creates a new dilemma for citizens: reaping the benefits of globalisation means a decrease of the mandate policy domain and an increase of the trustee domain which, in practical terms, implies assuming higher level of technocratic interference in the decision-making process. In other words, less control for citizens over political decisions affecting their lives.

Under this scenario, the pertinent question relates to how much policy concessions parties are prepared to make and how they affect the balance between policy responsiveness and party responsibility. This new scenario illustrates the significant changing balance between responsiveness and responsibility compared with previous periods (Bardi et al., 2014). The political process of adapting to globalisation shows establishment parties designing institutions to adjust to globalisation and citizens benefiting from the new political order. New political arrangements needed to maximise international cooperation include counter-majoritarian institutions which act like trustees rather than as agents subject to direct political accountability (Tallberg, 2002). As long as the economy flourishes, this new equilibrium works well: responsiveness is observed as long as international markets do not feel under threat. Hellwig (2015) shows how despite losing leverage on economic policies, parties retain and even expand at the national level policy domains, especially on social issues. Similarly, Schneider (2018) documents the different mechanisms used by parties within the EU to respond to voters' demands despite institutional constraints.⁵

⁵Also note that there is some empirical evidence showing that in open-economies, parties still can offer differentiated policies based on citizens' preferences and that globalisation plays little room in determining those policies (Przeworski and Meseguer, 2006). The theoretical argument develop so far is not entirely inconsistent with this finding, rather it argues that the domain of policies adopted using party mandates shrinks as globalisation increases.

Citizens, however, may go off this responsive-responsibility equilibrium path if a critical moment, like a crisis, is observed. In that situation, citizens learn *de facto* that their preferred policies, like for example more redistribution, cannot be fully implemented as countries' commitments to globalisation imply a greater role of non-elected actors dictating the most appropriate policy considering factors other than citizens' preferences. In this scenario, responsibility trumps responsiveness in the sense that by delegating certain policy domains to supra-national institutions, parties lose capacity to respond to their electorate when certain issues, mostly economic, become salient (Hellwig, 2015). Furthermore, by honouring international commitments, i.e. acting responsibly, parties not only open the door for accepting policies that may be in direct contradiction with voters' preferences but also limit the political accountability capacity of citizens, as bodies ultimately responsible for implementing a particularly unpopular policy cannot be held accountable.

This logic applies when financial bailouts are implemented to preserve the economic stability in a globalised political and economic context like the European Monetary Union. Within this unique geographical context, citizens, specially from countries that are in receipt of a financial bail-out, experience a learning update about certain procedural aspects of representative democracy, a learning process less intensively observed, however, in implementing and financially stable countries. Under these conditions, policies are not determined according to the most intense, or median voter's, preference, but rather by institutions that are not directly controlled by citizens (Sánchez-Cuenca, 2017). In this distinct scenario and under these particular conditions, elections, the cornerstone of democracy, become ineffective at least during the period of financial monitoring. It is so because when citizens use elections to replace their government, they learn that changing governments does not necessarily imply a change of policy as it used to be. Governments in bailout countries, whether implementing or recipient ones, lose significant policy capacity and citizens turn their back to establishment parties as supporting them would imply to live in a democracy without choice (Alonso, 2014).

The theoretical logic developed above translates into a number of testable claims. Given that there is no evidence of establishment parties, specially in re-

recipient countries, openly opposing the fiscal policies demanded from the EU in the period under study, one can assume that fiscal responsibility was the dominant policy for establishment parties in the period under study. In the case of citizens' attitudes as well as the electoral performance of establishment parties larger cross-country variances should be observed. In particular, after observing a financial bailout two distinct theoretical expectations can be made: a) Citizens, specially those from recipient countries, altered their perceptions about democracy and b) support for establishment parties decreased once financial bailouts were implemented.

Individual political consequence of exposure to bailouts.

Estimation

To test the theoretical claims made in the previous section, I use different empirical strategies. I first use individual data to test the part of the argument based on how citizens exposed to bailouts changed their views about certain characteristics of democracy focusing, in particular, on the responsive-responsibility dilemma. This analysis expects to test the theoretical expectation by which exposure to bailout results in a change of understanding of some key features of democracy which, then, translates into frustration with existing establishment political parties. The analysis is based on the rotating module on democracy included in the sixth round of the European Social Survey (ESS6)⁶.

The module is relevant for this analysis for various reasons. First, ESS6 took place during the late months of 2012 and the first months of 2013 when financial bailouts were being implemented in all affected countries⁷. This allows to define a treatment⁸ and a control group depending on exposure to this form of financial monitoring⁹. Secondly, the module on democracy asks respondents different questions about nine dimensions which allow to distinguish between procedural and outcome features of democracy¹⁰. Finally, the different items included in these dimensions include a self-perceived assessment alongside an assessment about the perception of each item in the respondent's country¹¹. The comparison between these two dimensions is the basis used to test how exposure to bailouts affects individuals' views of democracy. This analysis can, thus, give some support to the idea that a learning update could have taken place as a consequence of financial monitoring.

⁶See <https://www.europeansocialsurvey.org/data/themes.html?t=udemocracy>

⁷In 2013, bailouts were being implemented in Greece, Ireland and Portugal and Spain. Ireland formally exited the monitoring of the bailout on December 15th. 2013.

⁸Greece did not participate in this round of the ESS.

⁹EMU countries included in the survey which were not receiving a financial bailout are Belgium, Germany, Finland, France and the Netherlands.

¹⁰These dimensions are rule of law, vertical and horizontal accountability, participation, competition, representation, responsiveness, freedom and equality.

¹¹For an in depth discussion about the performance of democracy during the euro crisis see Ferrin and Kriesi (2016) and Kriesi (2018).

Table 1 shows the result of a t-test comparing the mean values of self-perceived and country-level views of different characteristics of democracy¹². Overall, the difference between self-perceived and country-level attitudes of government responsiveness is more than four times higher than levels of government responsibility¹³. The table also includes differences on democracy understood as protection against poverty¹⁴ and the role of Europe¹⁵.

Table 1: T-test comparing self-perceived vs country-level assessments of democracy

	Self-perceived	Country-level	Difference	p-value
Responsiveness	4.13	7.98	-3.86	0.00
Responsibility	6.34	7.18	-0.84	0.00
Protection against poverty	4.60	8.60	-4.00	0.00
Role of Europe on government	5.93	6.93	-1.00	0.00

The next part of the individual analysis focuses on how exposure to bailouts actually accounts for these uncontrolled for differences. If the theoretical claims developed above are correct, being affected by a financial bailout should correspond with larger differences between the self-perceived and country-level views compared with respondents from non-exposed countries.

I test this expectation using a regression adjustment estimation as described in Wooldridge (2010). This technique is based on running separate regressions for both the treated and the control group. It then uses those outputs to calculate the predicted outcome mean for each of the treatment as a prior step to estimate the average treatment effect of the treated (ATET). The model can be expressed as follows:

¹²Tables A1-A4 in the Supplementary Material show the descriptive statistics of the variables used here.

¹³Responsiveness is defined by the question: “*How important do you think it is for democracy in (general/country) that the government changes its planned policies in response to what most people think?*” (E36/E37, ESS6). Responsibility is captured by the question: “*How important do you think it is for democracy in (general/country) that the government sticks to its planned policies regardless of what most people think?*” (E36/E38, ESS6). All responses are given on a 0 (Not at all important) to 10 (Extremely important) scale.

¹⁴See E13/E27, ESS6

¹⁵See E16/E30, ESS6

$$ID_i = \beta_0 + \delta T_c + \omega_k Controls_i + u_i \quad (1)$$

The dependent variable in the model, ID_i is a collection of indicators of democracy that refers to some of its defining characteristics. The dependent variables is operationalised as the difference of each indicator between the self-perceived and country-level assessment made by individual i as previously discussed. Each of the indicators range from 0 to 10.

As mentioned above, the treatment of the specification is whether a participating country, c , are in receipt of a bailout or not in the year of the survey. This includes Portugal, Ireland and Spain which are the EMU countries in the sample that were under financial assistance when the survey was conducted¹⁶. The control group include the implementing countries of the Eurozone that participated in the ESS6¹⁷.

To minimise the risk of endogeneity, all models controls for different control variables that can be clustered around the following groups. Socio-economic determinants include a) ideology¹⁸; b) gender; c) age¹⁹; d) income²⁰ and e) years of education. The second cluster of control variables include employment characteristics like a) skill levels²¹ and b) occupation status. Finally, a cluster containing political knowledge and external efficacy variables include a) level of information²²; b) level of trust in political parties; c) satisfaction with present state of the economy; d) electoral winner²³ and e) interest in politics.

¹⁶The survey includes Cyprus which was bailed-out also in 2012. However, given that the bailout was agreed on Nov 30 2012 and the MoU signed on March 16 2013, it is excluded from the analysis as the sample may be already contaminated by the effect

¹⁷Belgium, Germany, Finland, France and Netherland. Italy is excluded from the analysis because although it was not technically under the effect of a financial bailout, the country was not free from external interferences. Notably, the 2012 Italian government was a technocratic one led by Mario Monti which was fully endorsed by the European Commission.

¹⁸Ideology is measured on a 0-10 scale where 0 is far-left and 10 is far-right.

¹⁹Age is used in the model in quadratic form to account for non-linear effects.

²⁰The ESS uses an ordinal variable indicating the distribution of the total household income.

²¹I use the four skill levels as defined ISCO-08. See <https://www.ilo.org/public/english/bureau/stat/isco/docs/annex1.pdf>

²²To capture the level of information of the respondent, all models include a categorical variable indicating how much tv is consumed to get political information. The variable ranges from 0(No use of TV at all) to 3 (More than 1 hour per day of TV)

²³This variable distinguishes among voters who did not or could not vote, voters who did vote

Using the regression model shown in equation 1 one can estimate the ATET as:

$$ATET = \left(\frac{1}{m} \sum_{i=1}^n \{ID_i : T = 1\} \right) - \left(\frac{1}{n-m} \sum_{i=1}^n \{ID_i : T = 0\} \right) \quad (2)$$

where n refers to the sample size and m is the number of respondents under treatment.

Figure 2 shows the ATET coefficients of this analysis which confirm the patterns anticipated by table 1. Citizens from recipient countries experience a larger variation between the self-perceived and country-level conditions of democracy compared with citizens from implementing countries. The economic effect captured by the items on poverty, -0.74, or role of Europe, -0.54, are both negative and statistically different from 0. The coefficients of interest, however, refer to the ATET values for the responsiveness and responsibility items. The analysis confirms that lack of responsiveness is larger, and different from 0, in recipient compared to implementers countries and responsibility is not statistically significant.

but their party was not in government, and voters who did vote and their party was in government. This variable is operationalised combining ESS data with the ParlGov cabinet dataset (See <https://www.parlgov.org>).

Figure 2: ATET estimates for characteristics of democracy

Discussion of results

Results in figure 2 support the theoretical claims previously made. Firstly, the coefficients on poverty and Europe indicate that citizens in countries receiving a bailout became more critical with their governments than citizens from implementing countries. Relative to country-level perceptions, the self-perceived attitude that governments protect against poverty is lower in bailout than in non-bailout countries.

Relevant to the argument made here, this economic-based perception co-exists with a stronger political reaction to the effects of bailout as theoretically expected. As figure 2 shows, the largest coefficient, -1.23, refers to the level of government responsiveness. Self-perceptions about levels of government responsiveness are significantly lower in bailout than in non-bailout countries relative to country-level perceptions. Perceptions on poverty and government responsiveness might be related as it could well be that what drives political attitudes in bailed-out countries

are just adjustments on the existing economic conditions (Devine, 2019). If this is the case, a potential political learning could be based on these individual experiences as citizens would not just react to economic adversity but, rather, use this reaction to channel political frustration.

Proving this claim about political learning is, however, challenging given the current data. Firstly, bailouts are considered in the analysis to be exogenous in line with related studies (Turnbull-Dugarte, 2020; Armingeon and Guthmann, 2014). The exogeneity of financial bailouts can also be justified by the evidence pointing at the political motivations that existed when the terms of the conditions established in the 2010 Greek and 2011 Portuguese bailouts were decided (Pisani-Ferry, 2014). This exogeneity, though, may be questionable as there could be unobserved factors driving the main findings, which might be controlled for if dynamic data was used instead. Secondly, since respondents were interviewed at one point in time, the survey does not allow to compare how bailouts affected citizens' perceptions of democracy within both recipient and implementing countries before and after observing a bailout. This is important as it prevents from properly identifying a learning process which would require observing data over a longer period of time (Dinas, 2013) or an experimental setting (Hill, 2017).

These limitations are not to be ignored but they also do not necessarily compromise the validity of the observed empirical pattern that emerge from the analysis. Firstly, both the treatment and the set of control variables used in the analysis should reduce the number of unobserved factors underlying the potential endogeneity of the model. Secondly, and more importantly, the results are consistent with earlier findings on attitudinal changes towards democracy in the period under study (Armingeon and Guthmann, 2014). Using different panel data estimation techniques, Ruiz-Rufino and Alonso (2017) and Schraff and Schimmelfennig (2019) show that levels of satisfaction with democracy, which were relatively high in countries like Spain or Greece before 2009, plunged in places that experience the implementation of financial bailouts. If, as Ruiz-Rufino and Alonso (2017) suggest, a learning process was observed once a bailout was implemented, then the analysis in this section provide further evidence about how such attitudinal updating action might have taken place.

Bailouts and electoral change

The second, and main, part of the empirical analysis examines country-level data to see if there is a connection between the potentially relevant individual attitudinal differences identified in the previous section and the electoral changes observed in the countries and temporal period under study. As shown above, and assuming all cautions also discussed there, this attitudinal divergence takes place, particularly, around the dimension of policy responsiveness. If establishment parties are more severely punished at elections in recipient than in implementing countries, then a link can be made between the attitudinal differences observed at the individual level and the electoral change observed in countries receiving a financial bailout. And if this claim is correct, then a plausible conclusion would be that citizens under the influence of bailouts turn their back to old establishment parties as these parties put responsibility over responsiveness.

Alonso and Ruiz-Rufino already show empirical evidence of this pattern and they also argue that the electoral loss was significantly larger for parties on the Left, mostly social-democratic parties, than for parties on the Right (Alonso and Ruiz-Rufino, 2020). The analysis below goes, however, further as it also shows the dynamics by which the learning update, as suggested by the observed attitudinal differences with respect to responsiveness, take place and condition electoral competition. The different tests and specifications confirm that implementing or receiving a financial bailout affect the electoral support for establishment parties. Furthermore, this effect takes place mostly during the time of the bailout but it does not disappear once the monitoring programme ends.

Figure 3: Dynamics trends of electoral competition

The analysis executed in this section uses 130 parliamentary and European elections in a period ranging from 1991 to 2019²⁴. Figure 3 shows the electoral dynamics regarding support for establishment parties in both implementing and recipient countries during the key periods under study. Two findings are worth discussing. Firstly, electoral support for establishment parties is, on average, higher in receptors than in implementing countries. Secondly, however, parties in recipient countries lose electoral support at a faster rate than parties in implementing countries especially after the bailouts are observed. Establishment parties, overall, experience an electoral decline during the crisis compared to the pre-crisis period. In countries favouring economic orthodoxy and leading the need to implement bailouts on fiscally deviant countries, the vote for establishment parties decreases

²⁴When elections were concurrent, then national elections are used over European ones. Table A5 in the Supplementary Material shows all elections used in the analysis. Parliamentary data comes from Armingeon et al. (2019) which has been updated to cover the elections up to 2019. Results from the European Parliament elections are obtained from the ParlGov dataset available at <http://www.parlgov.org/>.

from 62% to 52%. In countries in receipt of financial bailouts, the effect of the crisis sees a decrease in the number of votes as predicted by economic voting but electoral support for establishment declines particularly during the period when bailouts are being implemented. The support for establishment parties in this case shifts from about 77% in the pre-crisis period to 55% when bailouts are in place. Comparing the two group of countries, the electoral loss of establishment parties in recipient countries is more than double the loss of such parties in implementing countries. This electoral decline of establishment parties in recipient countries remains even after exiting the fiscal discipline imposed by bailouts. In the case of implementing countries, support for establishment parties also decreases further (43%) after the financial crisis is over but as discussed below, there might be other conjoint factors, like the saliency of immigration, that could explain this electoral change.

The description of these patterns conform the basis of a more detailed analysis where the impact of each of the key events observed in the period under study are evaluated in relation with electoral competition. The main analysis used to test the theoretical claims is based on a difference-in-difference estimation which has the following form:

$$\begin{aligned}
Votes_{c,y} = & \alpha + \delta_{dd}Bailout_{c,y} + \sum_c \gamma_c Country_c + \sum_y \tau_y Year_y + \\
& + \omega_k Controls_{c,y} + u_{c,y}
\end{aligned} \tag{3}$$

The outcome variable refers to the combined vote-share of the establishment parties in each country as operationalised by Alonso and Ruiz-Rufino (2020)²⁵. The parameter of interest in the model is δ_{dd} which captures the effect of bailouts on the electoral success of establishment parties depending on when a country, c , is in receipt of a financial bailout in year, y . This diff-in-difference specification includes country and year fixed effects to allow different timings of entry and exit

²⁵These are parties that between 1991 and 2010 have a) occupied the first ministry of the country or b) acted as the main opposition party in parliament. Note this operationalisation exclude parties like *Syryza* or *La République En Marche* that became "establishment" according to this definition after 2010.

into the treatment²⁶ (Angrist and Pischke, 2008). The model also includes a series of control variables, ω . The macro-economic performance of country c is captured by the level of deficit in the period $y - 1$ ²⁷. A binary variable is included to identify elections to the European Parliament as these elections are typically considered second-order one and support for establishment parties typically decreases in these elections (Hix and Marsh, 2011). Finally, the model includes an autoregressive vector, VAR(1), to account for serial autocorrelation. Equation 3 is estimated using OLS with panel-corrected standard errors (Beck and Katz, 1995).

Table 2 shows three models based on equation 3²⁸. Model 1 is a baseline model that excludes controls. Control variables are included in model 2 and model 3 adds country year trends. The value of the coefficient across the different specifications is similar in size and statistical significance. The results indicate a negative effect of financial bailouts on the electoral success of establishment parties in recipient as compared to implementing countries. The estimated difference between how much the electoral support of establishment parties in receptor countries after the bailout compared to before the bailout is 10% higher than the same difference in implementing countries. More precisely, using model 2²⁹, the 95% confidence interval of the difference ranges between -15% and -4%.

²⁶Using the date when bailouts were agree, the beginning of bailouts was 2010 (Greece and Ireland), 2011 (Portugal) and 2012 (Spain). The end of bailouts was 2013 (Ireland), 2014 (Portugal and Spain) and 2018 (Greece).

²⁷Results do not change if levels of unemployment are added into the analysis. See table A16 in the Supplementary Material.

²⁸See full details in Table A7 in the Supplementary Material.

²⁹Model 2 is preferred to model 3 as the effect of bailouts is expected to be gradual and can, therefore, be mixed-up with the country-year trend effects (Angrist and Pischke, 2008, 239-41).

Table 2: Diff-in-Diff analysis

VARIABLES	(1) Votes	(2) Votes	(3) Votes
DiD estimator	-9.88*** (2.936)	-10.56*** (3.044)	-10.87*** (3.515)
Constant	68.22*** (4.324)	57.38*** (7.720)	47.32 (56.308)
Observations	130	118	118
R-squared	0.783	0.806	0.806
Number of id	11	11	11
Countries	All	All	All
Controls	No	Yes	Yes
Lags	No	Yes	Yes
FE	Country+Year	Country+Year	Country+Year
Trends	No	No	Yes

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Model 2 in table 2 also reveals how exposure to a financial bailout, either as an implementing or a recipient country, significantly affects the vote share to establishment parties in these countries. Figure 4 shows the predicted vote for both implementing and recipient countries before and after bailouts were being implemented. The plot illustrates how in both cases the presence of bailouts had a negative and statistically significant effect albeit larger in recipient than in implementing countries. Parties in countries in receipt of financial bailouts decrease their vote share from 76% to 55% whereas establishment parties in implementing countries decrease their support from 60% to 49%.

Figure 4: Loss of electoral support during the financial crisis

Overall, the results of this analysis are of interest for two reasons. Firstly, the different estimations confirm that electoral support for establishment parties decreased more dramatically in countries in receipt of financial bailouts than in countries implementing the fiscal mechanism. This finding is also consistent with the individual-data analysis. Electoral losses are greater in countries where citizens' attitudinal differences with respect to responsiveness are larger compared with individuals from implementing countries. Secondly, and also relevant, the model indicates that implementing a bailout also had an electoral cost for establishment parties of these countries. This finding is consistent with case-studies analysis that show how establishment parties, especially those in government, were under pressure when bailouts were being negotiated (Bechtel et al., 2017).

Robustness tests: Alternative specifications and explanations

The estimations shown in table 2 are robust to several tests. The original model in equation 3 is first re-tested using specifications that involve different sample types. The first robustness test involves excluding Greece from the analysis. This exclusion is justified for at least two reasons. Firstly, the sixth round of the ESS does not include Greece. Secondly, the political system in Greece shook dramatically during the financial crisis and such political and electoral uncertainty could be driving the results. Model 1 in table 3 estimates the model specification of equation 3 excluding Greece from the analysis³⁰. The coefficient remains significant.

The second test adds Italy to the main analysis. Italy was never financially bailed out but it was under significant pressure from the European institutions like the Commission or the European Central Bank to implement structural reforms especially on the labour market³¹. Perhaps, a good illustration of how policies were influenced by the dictum of Brussels was the appointment of Mario Monti, a former EU commissioner, as interim Prime Minister following the resignation of Silvio Berlusconi in November 2011. When Italy is included in the analysis, the effect of bailouts on the electoral success of establishment parties remain unaltered as model 2 in table 3 shows.

Model 3 questions the exogeneity of bailouts and uses a selection model (Przeworski and Vreeland, 2000). The estimation finds no support for selection³² issues and the coefficient remain unchanged. Model 4 in table 3 truncates the dataset once the bailout conditions expires. In the case of implementing countries, one could argue that there are no reasons to expect any significant spill-over effects of the crisis on establishment parties in these countries during the years following the financial crisis. In fact, it was during the years of the crisis, 2009-2014, when new challengers appear in implementing countries like AfD in Germany (Schmitt-Beck, 2017). The second reason is that a different external shock shook electoral

³⁰Tables A10 to A14 in the Supplementary Material show the full details of these analyses.

³¹The most notable example of how EU institutions interfered in domestic policy agenda is the so-called Trichet Letter. See <https://www.ft.com/content/3576e9c2-eaad-11e0-aeca-00144feab49a>

³²The Wald test of independent equations generates a Chi-square statistics of 0.42.

politics in Western Europe from 2015 onwards as a consequence of the refugee crisis originated by the war in Syria. This shock made immigration an even more salient electoral issue that put establishment parties under strain especially in implementing countries (Mader and Schoen, 2019; Hooghe and Marks, 2018). The end of the financial bailout in receptor countries also coincided with domestic issues that affected the performance of establishment parties. For example, in Spain a territorial crisis unfolded, especially from 2016 onwards, as the Catalan government challenged central government by pursuing an agenda of territorial independence. When elections occurring after the implementation of a bailout are removed from the original estimation, the DiD coefficient in model 4 in table 3 goes in line with the original estimation, thus, confirming again the robustness of the result. Finally, the inclusion of elections to the European Parliament could also condition the size of the DiD coefficient. Model 5 in table 3 replicates the analysis excluding these elections and the results remain the same.

Table 3: Different samples.

VARIABLES	(1) Votes	(2) Votes	(3) Votes	(4) Votes	(5) Votes
DiD estimator	-6.70** (2.751)	-7.72*** (2.849)	-10.12** (5.071)	-17.84*** (3.412)	-11.62*** (4.030)
Constant	47.20*** (7.493)	51.54*** (7.668)	57.59*** (8.521)	59.64*** (7.294)	55.01*** (8.511)
Observations	106	129	118	98	75
R-squared	0.840	0.785		0.821	0.806
Number of id	10	12	11	11	11
Countries	Excl. GRE	Incl. ITA	All	All	Excl EP
Controls	Yes	Yes	Yes	Yes	Yes
Lags	Yes	Yes	Yes	Yes	Yes
FE	Country+Year	Country+Year	Country+Year	Country+Year	Country+Year
Trends	No	No	No	No	No

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

The effect of timing

Has the effect of bailout on electoral competition persisted over time? If the theoretical claims made before are correct, the learning update process experienced by citizens once the bailout is observed should remain even after the end of the monitoring programme. Furthermore, as the findings in the previous section show, the effect of bailouts on the electoral fortunes of establishment parties exists for all citizens regardless of whether they live in an implementing or recipient country. A variation of the model based on equation 3 allows testing whether the effects of bailouts persisted once this type of financial monitoring stopped.

$$\begin{aligned} Votes_{b,t} = & \alpha + \sum_{b=0}^1 \sum_{t=0}^2 \delta_{dd} Bailout_b x Timing_t + \\ & + \sum_b \eta_b Bailout_b + \sum_t \rho_t Timing_t + \omega_k Controls_{b,t} + u_{b,t} \end{aligned} \quad (4)$$

In equation 4, the relevant coefficient of interest is also δ_{dd} which captures the DiD estimator between the two group of countries - those receiving a bailout and those implementing it - in three time periods - pre-bailout, bailout and post-bailout. Equation 4 is estimated using the same model specifications shown in Table 2. All three models in table 4 show a negative and statistically significant DiD coefficient when the period used corresponds to those years when financial bailouts were being implemented³³. The effect, however, does not exist in the post-bailout period³⁴.

³³The effect is, however, not robust if the sample excludes Greece.

³⁴Table A8 in the supplementary material show the full detail of this analysis.

Table 4: Dynamics effects of exposure to financial monitoring and electoral competition.

VARIABLES	(1) Votes	(2) Votes	(3) Votes
DiD: Bailout	-13.88*** (4.605)	-10.92** (4.485)	-10.80** (4.457)
DiD: Post-bailout	-4.00 (4.570)	-1.35 (3.647)	-1.53 (3.611)
Constant	60.34*** (1.564)	34.78*** (5.786)	34.57*** (5.791)
Observations	130	118	118
R-squared	0.502	0.673	0.674
Number of id	11	11	11
Countries	All	All	All
Controls	No	Yes	Yes
Lags	No	Yes	Yes
FE	Groups+Periods	Groups+Periods	Groups+Periods
Trends	No	No	Yes

Standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

An advantage of this estimation is that it also allows making comparison of interest between the two group of countries and the three periods under analysis. In particular, using equation 4, the following comparisons are defined:

$$E(Votes \mid Bailout = b, Timing_t) - E(Votes \mid Bailout = b, Timing_{t-1}) \quad (5)$$

where $b \in \{0, 1\}$ are the values of variable Bailout as defined previously and $t \in \{0, 1, 2\}$ are the values of the variable Timing. Using model 2 in table 4, table 5 shows the values of the relevant pairwise comparisons for both implementing

and recipient countries.

Table 5 shows two results of interest. Firstly, the analysis confirms that establishment parties in countries in receipt of a financial bailout lost significant electoral support (ca. 15%). In contrast, the effect is not present in implementing countries. Secondly, the effect observed in recipient countries remains the same in the post-bailout period. In other words, the observed effect does not fade away as recipient countries abandon the fiscal discipline of the bailouts. For implementing countries, the coefficient is also negative and statistically significant. It is however unclear if this is a mid-term effect resulting from sponsoring bailouts or because of other contemporaneous effects as discussed in the previous robustness test section.

Table 5: Pairwise Comparisons

	Contrast	SE	95 % CI	
			Lower Bound	Upper Bound
Implementer countries				
Bailout vs Pre-bailout	-3.77	2.60	-8.86	1.32
Post-bailout vs Pre-bailout	-11.91	2.91	-17.62	-6.20
Post-Bailout vs Bailout	-8.14	3.19	-14.40	-1.89
Receptor countries				
Bailout vs Pre-bailout	-14.69	3.94	-22.42	-6.97
Post-bailout vs Pre-bailout	-13.26	2.95	-19.04	-7.49
Post-Bailout vs Bailout	1.43	4.05	-6.51	9.37

Finally, in order to make a more fine grained analysis of the temporal dynamics affecting the level of electoral support for establishment parties in the period under study, figure 5 plots the predicted value of the vote-share of establishment parties in both implementing and receptor countries given a certain number of years since and leading up to observing the implementation of the first bailout in 2010. The figure is obtained from a model based on equation 4 where the categorical variable Timing is replaced by a set of binary variables which take the value 1 if a country was in receipt of or implementing a bailout in a particular year. The lines show a sharp decline of such support shortly (1 to 3 years) after the bailout is

implemented³⁵. Likewise, implementing countries observed a significant electoral decline but only after 2016.

Figure 5: Support for establishment parties in implementing and recipient countries.

³⁵This is statistically confirmed also in all models in table A9.

Conclusion

During the financial and currency crisis that affected the Eurozone between 2010 and 2015, member-states of the European Monetary Union tried various recipes to fix the different problems that put the Euro under strain. When the risk of financial collapse faced by some countries was high enough to credibly threaten the stability of the common currency, member-states opted for using extraordinary financial relief packages. Financial bailouts injected large sum of capital liquidity into debt-driven countries but such economic relief came with strict requirements to implement considerable fiscal consolidation programmes as well as adopt structural reforms affecting the banking system or social security schemes. The literature has already identified an association between the use of financial bailouts, especially on recipient countries, and shifts of individuals' political attitudes (Armingeon and Guthmann, 2014; Schraff and Schimmelfennig, 2019), electoral turnout (Turnbull-Dugarte, 2020) or how establishment parties from both side of the ideological spectrum performed electorally (Alonso and Ruiz-Rufino, 2020).

This article goes further and contributes to this discussion by introducing a mechanism that explains how financial bailouts actually account for such political changes. Expanding an idea first introduced by Ruiz-Rufino and Alonso (2017), the preceding pages show that financial bailouts, when decided as a policy, affect the policy response of establishment parties but also citizens' views about democracy. Establishment parties, whether in government or in opposition, face a dilemma between choosing policies demanded by citizens asking for further social protection in order to overcome economic hardship or honouring the institutional commitments previously made at the international level. By supporting the adoption of bailouts as instruments to save the Euro, parties choose economic responsibility over policy responsiveness. Bailouts, then, become cognitive tools for citizens who learn that no policy differentiation exists between establishment parties and that elections no longer are mechanisms to choose among competing platforms.

The empirical analysis conducted in this article confirms that the use of financial bailouts is related to significant political change. But in contrast with previous

research, it shows that a similar pattern is observed at both individual and country levels, thus, establishing a link between these two tiers of analysis that may help understand how bailouts account for current attitudinal as well as electoral changes. In this sense, the analysis developed here allows two related conclusions. Firstly, individuals from countries in receipt of financial bailouts assess items of democracy differently than citizens from implementing countries. In particular, citizens learn that levels of party responsiveness decrease as parties have little room to address citizens' demands. This finding is consistent with the main theoretical claim made in this article whereby bailouts trigger a democratic learning update on affected citizens which may condition their electoral behaviour. However, further work is needed to understand how the political learning triggered by bailouts is distributed. In particular, an important venue that needs to be exploited in greater detail is how distinct socio-economic profiles are more or less prone to experience this learning process.

The second conclusion indicates that bailouts also affect the electoral performance of establishment parties. Country-level analyses show how the acceptance of the conditions of financial bailouts inflicts a significant electoral loss on establishment parties of recipient countries. This effect takes place mostly in recipient countries during the time when bailouts are being implemented and does not fade away when the fiscal monitoring is over. This lasting effects are, however, not fully conclusive with respect to implementing countries. Theoretically at least, citizens in implementing countries should also experience a learning update though less intensively than in recipient countries. This is confirmed in the analysis only partially. When two periods are used, pre-and exposure to bailouts, the analysis shows that establishment parties lose electoral support during the bailout- compared to the pre-bailout period. When three periods are used, the effect only manifests itself in the added post-bailout period. This makes difficult to identify the source of this electoral decline in countries sponsoring bailouts as these financial relief programmes coincided with other exogenous shocks that affected electoral politics especially in Central and Northern Europe. This limitation should open some venues for further research.

Finally, the findings of this article are also relevant to understand the rise of anti-establishment movements or the electoral success of technocratic alternatives

in recent times. The theoretical framework tested here provides an alternative explanation to understand why voters who feel disenfranchised by establishment parties choose parties that either endorse direct democracy formulas or give primacy to experts and technocrats. The connection between the electoral success of these political platforms and exposure to financial bailouts has, however, not been fully identified yet and should also be the subject of further investigation.

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