

## What if the economy decided the Dutch election?

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While most observers are covering the Dutch election as a litmus test for populism in Europe, focusing on issues such as the European Union, immigration and the PVV-leader Geert Wilders, these issues might actually be a lot less important than the traditional bread-and-butter issue of the economy.

If the election is not (only) about populism and Wilders, what would it be about? Building on a rich literature in the field of electoral research, it would not be surprising if the economy had an important impact on Dutch voters' choices and on the outcomes of today's election. In many democracies, we find that economic conditions are systematically correlated with how the incumbent government performs on Election Day. That is, governments tend to be punished for worsening economic conditions while they are rewarded in times of economic growth.

We have verified to what extent electoral results in the Netherlands are generally associated with economic indicators. Despite the fact that the Dutch party system is strongly fragmented, we do find a clear link between economic indicators such as GDP or unemployment rates and the performance of the incumbent.

Using these insights, we have built a simple and parsimonious model to predict electoral results in the Netherlands. We have developed a model to predict the vote share of the Prime Minister's party (in this case the VVD of Prime Minister Rutte). Our key indicators are the incumbent's vote share in the previous election, a measure of GDP growth in the year before the election and an indicator of the number of months the incumbent has been in office. This last variable takes into account the possibility of a cost of ruling-effect.

This simple model performs remarkably well. Applying it to previous elections in the Netherlands, the model predicts the Prime Minister's party's vote share with an average error of 3.7 percentage points.

If we apply this model to the 2017 elections, what are our predictions? We estimate that the VVD of Prime Minister Rutte will obtain 22.3% of the votes.

This prediction is higher than what the latest polls suggest will be the outcome of the Dutch elections. The latest polls suggest the VVD will obtain only 17% of the votes. Obviously, polls come with error, and so does our very parsimonious forecasting model (recall the average error of our model in previous elections is 3.7 percentage points).

Both of types of predictions thus have to be taken with a grain of salt, but based on our forecasting model we would suggest that the VVD is likely to do quite a bit better than what polls suggest. If Dutch voters are taking into account the state of the economy today, Mark Rutte's party will outperform its standing in the polls.

For those who are interested, here is basic information on the model, which rests on data from the 1952 election to the present.

### FORECASTING MODEL

	<b>Coefficients</b>
<b>Constant</b>	-0,001
<b>Last election vote</b>	1,175**
<b>Weighted GDP growth</b>	1,298*
<b>Months in power</b>	-0,146**
<b><math>R^2</math></b>	0,73
<b>Adj. <math>R^2</math></b>	0,68
<b>SEE</b>	4,76
<b>DW</b>	1,62
<b>N (1952-2012)</b>	19

\* Statistically significant at 0.1.

\*\* Statistically significant at 0.01.

<b>Election</b>	<b>LP vote share</b>	<b>LP vote share (t-1)</b>	<b>Weighted GDP</b>	<b>Months</b>	<b>Within-sample forecast</b>	<b>Error</b>
25 Jun 1952	29.00	25.60	1.000	46.64	24.57	-4.43
13 Jun 1956	32.70	29.00	4.000	94.31	25.50	-7.20
12 Mar 1959	31.60	31.70	-0.750	2.63	35.89	4.29
15 May 1963	31.90	31.60	3.750	52.80	34.29	2.39
15 Feb 1967	9.90	8.70	1.500	2.80	11.76	1.86
28 Apr 1971	21.80	26.50	3.670	48.82	28.77	6.97
29 Nov 1972	8.80	8.60	2.080	17.80	10.21	1.41
25 May 1977	33.80	27.30	3.170	48.52	29.11	-4.69
26 May 1981	30.80	31.90	-0.420	41.25	30.91	0.11
8 Sep 1982	29.40	30.80	-1.750	56.71	25.64	-3.76
21 May 1986	34.60	29.40	2.580	42.57	31.68	-2.92
6 Sep 1989	35.30	34.60	3.500	82.17	33.20	-2.10
3 May 1994	22.20	35.30	1.420	138.09	23.16	0.96
6 May 1998	29.00	24.00	4.000	44.51	26.89	-2.11
15 May 2002	15.10	29.00	0.170	92.86	20.74	5.64
22 Jan 2003	28.60	27.90	-0.920	6.05	30.70	2.10
22 Nov 2006	26.50	28.60	2.920	52.11	29.79	3.29
9 Jun 2010	13.60	26.50	1.500	94.70	19.26	5.66
12 Sep 2012	26.60	20.50	-1.250	22.99	19.11	-7.49
					<b>Out-of-sample forecast</b>	
<b>15 Mar 2017</b>		<b>26.60</b>	<b>1.750</b>	<b>77.10</b>	<b>22.27</b>	