

INFORMATION SOURCES, BELIEF UPDATING, AND THE POLITICS OF ECONOMIC EXPECTATIONS

EVIDENCE FROM A DANISH SURVEY EXPERIMENT

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Research questions

Voters in advanced democracies are generally politically and economically-uninformed, but also vary considerably.

How voters differentially process politically-relevant information, and how it translates into political behavior, is not yet precisely understood.

How do different priors and sources of information used to update prior beliefs affect an individual's posterior economic projections?

When do changes in posterior economic expectations affect economic voting and preferences over welfare policy?

Contribution

Combining detailed prior respondent information with a survey experiment, we preliminarily find:

1. *Illuminate the black box of politically-relevant information processing*: extent of updating varies a lot by source, partisanship, economic circumstance and prior.

2. *Important implications for political behavior*: Unemployment expectations matter for economic voting but less consequential for policy preferences.

...information has important effects, but new information does not affect everyone equally. Reinforcing Bartels (2008), this has important political consequences.

Bayesian updating framework

i 's conditional posterior belief about future unemployment level, U , is:

$$P(U = u|X_i, Z_i) = P(U = u|X_i) \frac{P(Z_i|U = u, X_i)}{P(Z_i|X_i)},$$

where Z_i is an information shock, X_i captures i 's pre-shock experiences, $P(U = u|X_i)$ is i 's prior belief, and $P(Z_i|U = u, X_i)/P(Z_i|X_i)$ is i 's updating mechanism (informativeness of Z_i).

Recent work examining updating focuses on candidate characteristics (e.g. Kendall, Nannicini and Trebbi 2013), and ignores X_i heterogeneity.

The media literature finds that source Z_i should matter for consumer updating (Gentzkow and Shapiro 2006; Shleifer and Mullainathan 2005), but has lacked sufficient data to carefully examine the updating process.

Politics and economics of information processing

The average effects of information sources differ:

- Credible information causes large and precise shifts in $P(U = u|X_i, Z_i)$...
- ...credibility could come from confidence in the source: previous experiences and trust increase credibility.
- ...and recognizing the source's strategic biases: e.g. signalling the economy is doing well is more surprising from the opposition than government; independent central bank minimizes uncertainty to calm markets.

But individuals differentially update their beliefs:

- Priors differ in location and certainty; depend on political-economic experiences and attention to public affairs.
- Perceptions of credibility vary with partisan congruence and trust.
- Sensitivity to outcome, increasing in subjective job security, industry's correlation with national cycles, local activity, risk-aversion, tenure.

Implications for political preferences

Economic information has important implications for voting:

- **Economic voting**: signals government competence (e.g. Ferejohn 1986; Rogoff 1990) → better performance increases government re-election prospects (Duch and Stevenson 2008).
- **Welfare policy preferences**: support for redistribution and social insurance decline if expect to be net contributors (Meltzer and Richard 1981).

- ...effects are heterogeneous here too: national rate more relevant for some individuals (Ansolabehere, Meredith and Snowberg 2012), especially risk-averse (Persico 2000); partisanship constrains sanctioning.

Empirical design

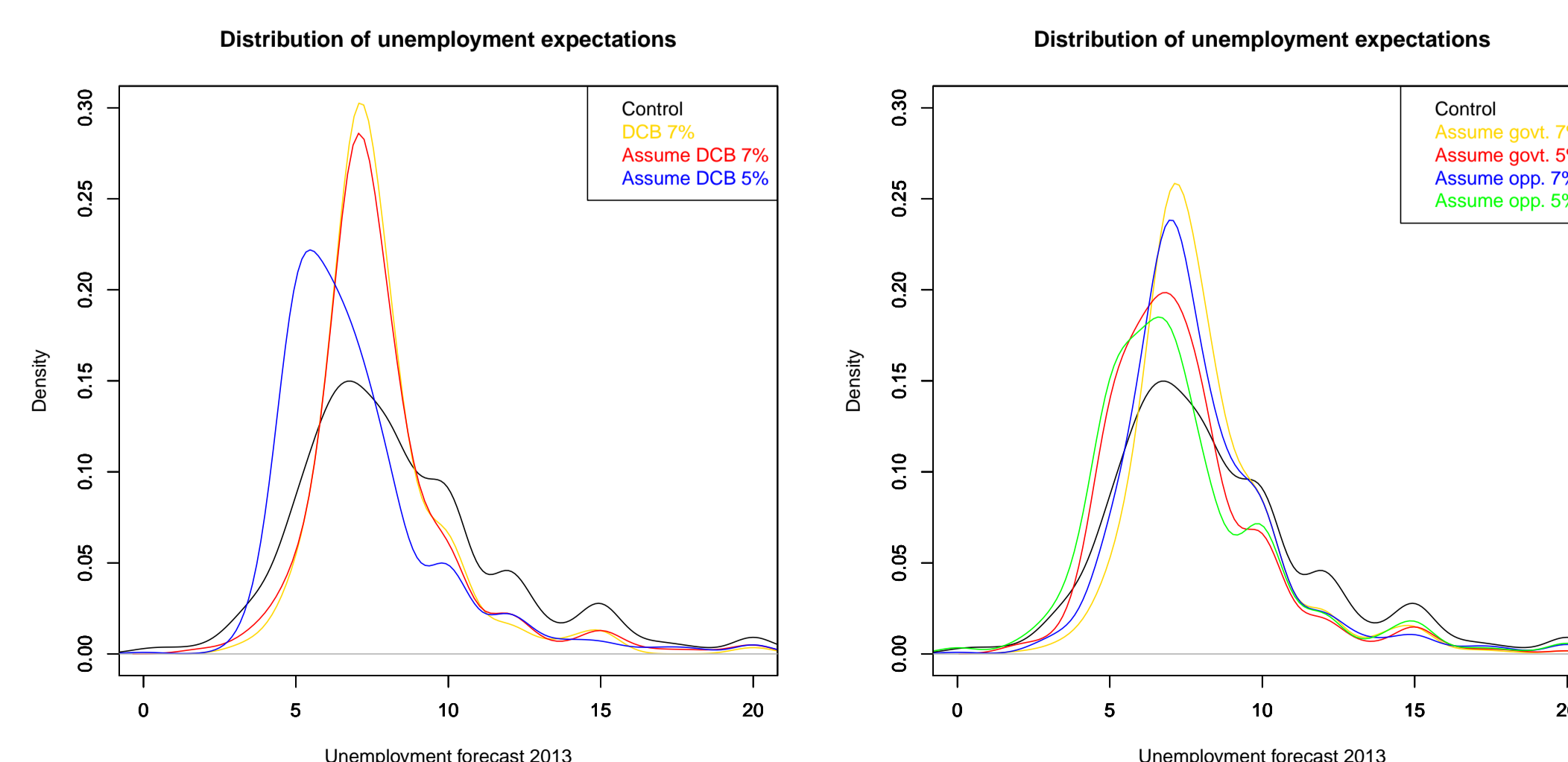
Context: centre-left governing coalition; Jan. 2013 unemployment was 7.4%; DCB predicted decline below 7% by Jan 2014; August 2013 rate 6.7%; next election in 2015.

- **Danish registry data and longitudinal political survey** create detailed histories using objective and subjective measures.
- **Survey experiment** randomizing information sources.

Seven forward-looking information treatments

Unemployment information—source and level: “Assume that that the [Danish Central Bank/government/opposition] estimates unemployment in 2013 to be [almost 7%/around 5%].” (Compare true estimate as check on prime.)

...then elicit unemployment expectation point estimate (assume “center” of distribution), after asking about current rate estimate.



Results: unemployment expectations

DCB (most trusted) causes largest average fall in unemployment expectations from control mean of 8.99, with smallest standard deviation.

Citizens update more following unexpected opposition claims than expected government claims (albeit insignificantly), but are noisier than DCB.

	Unemployment expectations (%)
DCB 7% (true)	-1.02*** (0.15)
DCB 7%	-0.91*** (0.14)
DCB 5%	-1.64*** (0.16)
Government 7%	-0.80*** (0.15)
Government 5%	-1.28*** (0.16)
Opposition 7%	-0.77*** (0.15)
Opposition 5%	-1.39*** (0.17)

OLS with controls; $N = 5,512$; robust SEs in parentheses; * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Largest reductions for most risk-averse, least informed, worst economic prospects, and government/left voters.

...plan to back out updating structurally by predicting prior with previous surveys and predictions—permits better individual-level analysis.

Results: political preferences

Economic voting robustly supported and large: information can support “accountability”; strongest among non-government partisans, the risk-averse, and those with worst individual economic expectations.

	Would vote government	Support redistribution	Increase unemployment insurance
Unemployment expectation (%)	-0.03** (0.01)	0.05* (0.03)	-0.01 (0.02)
Outcome values	{0,1}	{1,2,3,4,5}	{1,2,3}

2SLS with controls; first-stage $F \approx 25$; robust SEs in parentheses; * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Redistribution effects strongest through DCB treatments.

No insurance effects. Already so high? Accountability mechanism only?

Near and far horizons

Waiting to utilize individual histories to create detailed individual measures of circumstance and priors.

Second treatment examining fiscal expansion primes.

Field experiments exploring information acquisition, social networks, and enduring behaviors?

Eliciting expectation distributions and multiple horizons.

Disentangling selfish from sociotropic preferences: industry information, house price incentives?