A rational-voter explanation of the cost of ruling*

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Abstract. It is well known that the average government loses votes — the so-called cost of ruling. We show that the loss can be explained as a perfectly rational demand for change in a median voter model, once the model is amended to let the two parties be visibly different.

1. The problem and four old explanations

The literature on vote and popularity functions (from now VP-functions) has demonstrated that the average government in a developed democracy loses votes.

Consider an election where the incumbent government receives $V_t$ percent of the valid vote and let $V_{t-1}$ be the vote, similarly calculated for the same party(ies) at the last election. The government’s gain is $\Delta V_t = V_t - V_{t-1}$. Empirical work consistently shows that on average $\Delta V$ is negative: as a simple rule of thumb the average government suffers a loss of about 1.65% of the vote. This erosion of support is often referred to as the cost of ruling, or, using an analogy from the theory of capital, a depreciation of the stock of popularity.

These different labels, however, do not explain the empirical observation and, on the face of it, the cost of ruling is a paradox within a rational voter paradigm. The average government should rule exactly as well or as badly as the rational voter expects. Hence, it seems irrational that the voters punish the average government by voting against it. An explanation of this irrationality is needed, and four hypotheses can be found in the literature:

(1) The coalition of minorities hypothesis suggested by Mueller (1970). Society is seen as a (large) collection of groups. To rule, a party must put together

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a majority coalition. It is easier to forge this coalition for an opposition, since it can be inconsistent in its promises to different groups. Once in power, the inconsistency is revealed, and a ruling party must disappoint at least some groups of supporters. The cost of ruling measures the amount of inconsistency that the average opposition can get away with (see, e.g., Holler, 1979). Unfortunately, no evidence in support of this theory has been provided.

(2) The regression towards natural levels hypothesis in Paldam (1986). According to this hypothesis, each party has a constant “natural” level of support. The vote for a party at any given election is equal to its natural level plus a stochastic term. If the stochastic term is white noise, election results are independent and the changes in the vote from one period to the next are negatively correlated. Gains and losses are temporary, and the winners in one election tend to lose support in the following election. Since government parties often won the last election, a sample of these parties contains a systematic bias, and the observed cost of ruling reflects this sample bias. On its own, however, this explanation cannot account for the empirical evidence: quantitatively the bias effects are too small to explain the observed cost of ruling.

(3) The existence of equilibrium coalitions depends on the party system. In some systems disequilibrium persists. This is, for instance, the case in a simple Hotelling setup with three parties. The repositioning of the parties for each new election leads to changing vote patterns and government coalitions. Under such circumstances it is possible to get patterns with ever-changing government coalitions, most of which lose the following election. The outcomes are very sensitive to the specification of the party system, see Selten (1971) or Schofield (1987).

(4) The claim that voters have a taste for change. It is a common hypothesis in popular writings that from time to time voters want to see new faces. This hypothesis is hard to prove or disprove. But true or not, it fits uneasily into the existing VP literature with its focus on preferences defined over a policy space.

2. Party positions and policy outcomes

Our aim is to show that the cost of ruling may reflect an entirely rational demand for change. We reach this result by adding a small twist to the median voter model. Consider a stylized median-voter world, with two parties, and a one-dimensional policy space. The median voter wants policy outcome $g$. Left wants the policy outcome $\alpha$ and Right wants $\beta$, where $\alpha < \mu < \beta$. The set-up is illustrated in Figure 1.

Both parties want to rule, so we have a strong pull toward $\mu$. Empirically,