Public Policy Investment: Risk and Return in British Politics

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Abstract:

We set out a theory of political capital investment to explain how democratic governments emphasize specific public policies. Our claim is that governments seek to enhance their chances of re-election by managing their portfolio of public policies in a calculated manner. In this way, government is like an investor making choices about risk to yield return on its investments of political capital. We introduce a quantitative method for assessing risk and return in government policy portfolios in Britain. Do the British public reward returns to political capital? Do they punish risky policy investments? We address these questions through a time-series analysis of risk and return between 1971-2000. Our findings reveal a novel portrait of British statecraft.

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Introduction

Why do democratic governments emphasize some policies and not others? This question is surprisingly hard to answer. It is axiomatic that governments wish to remain in office and get re-elected; and that they use the discretion of office accordingly, responding to crises and acknowledging public concerns with timely policy decisions. At the same time, governments do not respond to every problem they encounter. They must steer a steady course to achieve their goals. If governments changed their plans with each new issue demanding their attention, they would probably not achieve very much during their terms of office. The challenge for political leaders in a representative democracy is to find a way to address the concerns of the public, but also to manage the amount of risk they bear from choosing to stress some policy issues more than others.

In spite of these conventional wisdoms, political scientists do not understand enough about how politicians in office, such as prime ministers, arrive at the policies that benefit them and their parties. How do they respond to public problems on a day-to-day basis but also maintain the reputations of their governments? Almost all approaches to the study of policy-making treat this problem in a straightforward way. For example, studies of the responsiveness of policy to public opinion find that governments or executives follow the concerns of the public, adjusting the amount of attention they pay to each policy area accordingly.[1] Whilst such studies help to

[1] See Benjamin I. Page and Robert Y. Shapiro, *The Rational Public* (Chicago: University of Chicago Press, 1992); Robert S. Erikson, Gerald C. Wright and John P. McIver, *Statehouse Democracy: Public Opinion and Policy in the American States* (New York: Cambridge University Press, 1993); Lawrence R. Jacobs, *The Health of Nations: Health Policy and Public Opinion in the US and Britain* (Ithaca, N.Y.: Cornell University Press, 1993); James A. Stimson, Michael B. MacKuen and Robert S. Erikson, 'Dynamic Representation', *American Political Science Review*, 89 (1995), 543–65; Christopher

correct claims about unaccountable executive government, especially in Westminster systems,[2] they leave crucial questions unanswered. In particular, they do not posit how much responsiveness should occur; nor do they consider situations when politicians decide it is in their best interests not to respond to the demands of public opinion. These studies do not link policy-making to the tactical concerns of incumbents.

In a second line of work on the political business cycle, governments need only attend to one policy area to get re-elected.[3] If politicians manage the economy effectively, voters reward them for the resulting stream of material benefits and incumbents stay in power as a result. From this view, much else in public policy would seem to be ancillary, and a lot depends on the timing of economic management decisions. As with the policy-opinion literature, there is a large amount of evidence to back up this claim. Voters take the performance of the economy into account in their evaluations.[4] Governments that perform badly regarding the

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Wlezien, 'Dynamics of Representation: The Case of US Spending on Defense', *British Journal of Political Science*, 26 (1996), 81–103; Robert S. Erikson, Michael B. MacKuen and James A. Stimson, *The Macro Polity* (Cambridge: Cambridge University Press, 2002); Christopher Wlezien, 'Patterns of Representation: Dynamics of Public Preferences and Policy', *Journal of Politics*, 66 (2004), 1–24; Sara B Hobolt and Robert Klemmensen, 'Government Responsiveness and Political Competition in Comparative Perspective', *Comparative Political Studies,* 41 (2008): 309-337; Stuart N. Soroka and Christopher Wlezien, *Degrees of Democracy Politics, Public Opinion, and Policy* (Cambridge: Cambridge University Press, 2010); William Jennings and Peter John, 'The Dynamics of Political Attention: Public Opinion and the Queen's Speech in the United Kingdom', *American Journal of Political Science* 53 (2010), 838–854; Armen Hakhverdian, 'Political Representation and its Mechanisms: a Dynamic Left-right Approach for the United Kingdom', 1976-2006, *British Journal of Political Science,* 40 (2010): 835-856.

[2] Anthony Wright, *Citizens and Subjects*: *An Essay on British Politics* (London: Routledge, 1994); Stuart Weir and David Beetham, *Political Power and Democratic Control in Britain: the Democratic Audit of the United Kingdom* (London: Routledge, 1999).

[3] William Nordhaus, 'The Political Business Cycle', *Review of Economic Studies* 42 (1975), 169-190.

[4] For example, Hans Dorussen and Michael Taylor, eds, *Economic Voting* (London: Routledge, 2002); Raymond M. Duch and Randy Stevenson, *The Economic Vote: How Political and Economic Institutions Condition Election Results* (Cambridge: Cambridge University Press, 2008).

economy tend to get voted out of office.[5] Yet researchers are divided on the extent of the link between economic policy decisions and electoral outcomes, reporting a mixed set of results with regard to fiscal and tax policies.[6] Studies of the political business cycle provide a conditional and inconclusive set of findings about the electoral impact of the political control of the economy.[7] Given the state of current knowledge, we argue for a broader approach where attention to the economy is one aspect of decision-making by governments.

In a third category of pertinent studies, endogenous pressures for policy agenda change drive the attention of governments.[8] Even though decision-makers are incentivized to produce the same policy outputs over and over, new items on the agenda sometimes gain disproportionate attention from the media and other venues. This attention forces decision-makers to change their priorities. Whilst policy makers gain advantage from following the agenda, and may push it in the direction

[5] Wouter van der Brug, van der, C. van der Eijk and Mark Franklin, *The Economy and the Vote* (Cambridge: Cambridge University Press, 2007).

[6] For example, James E. Alt and David Dreyer Lassen, 'Transparency, Political Polarization, and Political Budget Cycles in OECD countries', *American Journal of Political Science*, 50 (2006), 530-550; Adi Brender and Allan Drazen, 'How Do Budget Deficits and Economic Growth Affect Reelection Prospects? Evidence from a Large Panel of Countries', *American Economic Review* 98 (2008), 2203-2220.

[7] Adi Brender and Allan Drazen, 'Political Budget Cycles in New Versus Established Democracies', *Journal of Monetary Economics* 52(2005), 1271-1295; for a review, see Robert J. Franzese, 'Electoral and Partisan Cycles in Economic Policies and Outcomes', *Annual Review of Political Science*, 5 (2002), 369-422.

[8] Frank R. Baumgartner and Bryan D. Jones, *Agendas and Instability in American Politics* (Chicago: University of Chicago Press, 1993, 2005); Frank R. Baumgartner, Bryan D. Jones and Michael MacLeod, 'The Evolution of Legislative Jurisdictions', *Journal of Politics*, 62 (2000), 221–49; Bryan D. Jones, Tracey Sulkin and Heather Larsen, 'Policy Punctuations in American Political Institutions', *American Political Science Review*, 97 (2003), 151–69; Bryan D. Jones and Frank R. Baumgartner, *The Politics of Attention: How Government Prioritizes Problems* (Chicago: University of Chicago Press, 2005); Frank R. Baumgartner, Christian Breunig, Christopher Green-Pedersen, Bryan D. Jones, Peter Mortensen, Michiel Nuytemans and Stefaan Walgrave, 'Punctuated Equilibrium and Institutional Friction in Comparative Perspective', *American Journal of Political Science*, 53 (2009), 503-620.

of party preference,[9] they do not have a mechanism to temper responsiveness to electoral advantage in this line of scholarship. In fact, the occurrence of policy shocks could signal over-responsiveness to public problems and thereby cause problems for politicians hoping to maintain stable governments.

A similar kind of reactive politician appears in the literature on party positions. Here policy-making by incumbent governments reflects competition among parties for the median voter's support, with the implication that when the median shifts so does attention to policies.[10] In particular, government policies incorporate manifesto programmes of the political parties, which structure the transmission between elections and policy outcomes.[11] Some studies place policy on an ideological continuum and identify parties — and governments by construction from parties — through their locations. Still others relate specific issues to parties who gain ownership over them.[12] In these studies, it is not that the Labour and Conservative parties emphasize social welfare policy, but rather what they say they are going to do to improve the social welfare that matters. However, valence models

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[9] Peter Mortensen, Christoffer Green-Pedersen, and Gerard Breeman, Will Jennings, Peter John, Arco Timmermans, Laura Chaques and Anna Palau, 'Comparing Government Agendas Executive Speeches in the Netherlands, United Kingdom, and Denmark', *Comparative Political Studies*, in press.

[10] Michael McDonald and Ian Budge, *Elections, Parties, Democracy: Conferring the Median Mandate*. (Oxford: Oxford University Press, 2005); Ian Budge, Lawrence Ezrow and Michael McDonald, 'Ideology, Party Factionalism and Policy Change', *British Journal of Political Science*, 40 (2010), 781-804.

[11] McDonald and Budge, 2005; also see Ian Budge and Richard. I. Hofferbert. 'Mandates and Policy Outputs: U.S. Party Platforms and Federal Expenditures', *American Political Science Review* 84 (1990), 111–32; Richard. I. Hofferbert and Ian Budge, 'The Party Mandate and the Westminster Model: Election Programmes and Government Spending in Britain, 1948–85, *British Journal of Political Science*, 22 (1992), 151-182. But see Gary King and Michael Laver, 'On Party Platforms, Mandates, and Government Spending', *American Political Science Review* 87 (1993), 744–50.

[12] Ian Budge and Dennis J. Fairlie, *Explaining and Predicting Elections: Issue Effects and Party Strategies in Twenty-Three Democracies* (London: George Allen & Unwin, 1983); John Petrocik, 'Issue Ownership in Presidential Elections, with a 1980 Case Study', *American Journal of Political Science* 40 (1996): 825-50; Wouter van der Brug, 'Issue Ownership and Party Choice,' *Electoral Studies* 23 (2004): 209-233.

of campaign politics provide a mechanism by which candidates downplay the spatial aspect of policy issues.[13] Evidence shows that such strategies can resonate with voters in contrast to party positions.[14]

The literature on comparative executive government gets closer to the kind of argument we presently advance. One claim is about the existence of a negative incumbency effect,[15] that there is a cost of governing, which comes about because of the inevitable mistakes governments make and for which they shoulder blame.[16] For example, US presidents suffer from swift declines in their political capital after entering office.[17] To replenish their capital, executives desire policy successes,[18] exploiting their power and prestige of their offices.[19] In particular, they court public opinion on specific issues.[20] They pander to core constituents but also follow — when they can — their conception of the public interest.[21] In this way, the executive

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[13] Harold Clarke, David Sanders, Marianne C, Stewart and Paul Whiteley, *Performance and the British Voter* (Cambridge: Cambridge University Press, 2009).

[14] James Adams, Lawrence Ezrow and Zeynep Somer-Topcu, 'Is Anybody Listening? Evidence that Voters do not Respond to European parties' Policy Programmes', forthcoming in the *American Journal of Political Science*; Paul Warwick, 'Bilateralism or the Median mandate? An Examination of Rival Perspectives on Democratic Governance', *European Journal of Political Research*, 49 (2010): 1–24.

[15] Kaare Strom, *Minority Government and Majority Rule* (Cambridge: Cambridge University Press, 1990), pp. 45-46; Richard Rose and Thomas Mackie, 'Incumbency in Government: Asset or Liability', in H. Daalder and P. Mair, eds, *Western European Party Systems: Continuity and Change* (London and Beverly Hills: Sage, 1983).

[16] Peter Nanestad and Martin Paldam, 'The Cost of Ruling', in Han Durussen and Michael Taylor, eds, *Economic Voting* (London: Routledge, 2002).

[17] Paul C. Light, *The President's Agenda* (Johns Hopkins University Press, 2nd edition, 1991), p. 32.

[18] Michael Bailey, Lee Sigelman and Clyde Wilcox, 'Presidential Persuasion on Social Issues: A Two Way Street?', *Political Research Quarterly* 56 (2003), 49-58.

[19] Thomas E. Cronin, *The State of the Presidency* (Boston: Little and Brown, 1980); Nelson Polsby and Aaron Wildavsky, *Presidential Elections* (New York: Charles Scribner's Sons, 1980).

[20] Richard Neustadt, *Presidential Power and the Modern Presidents* (New York: Free Press, 1990 [1960]); Samuel Kernell, *Going Public: New Strategies of Presidential Leadership* (Washington, DC: Congressional Quarterly, 1986); George C. Edwards, III., *At the Margins* (New Haven, CT: Yale University Press, 1989); Timothy R. Johnson and Roberts, 'Presidential Capital and the Supreme Court Confirmation Process', *Journal of Politics*, 66 (2004), 663–683.

[21] Brandice Canes-Wrone, *Who Leads Whom? Presidents, Policy, and the Public* (Chicago: University of Chicago Press, 2006).

uses the resources at its disposal to sustain itself in office over time, as part of a political strategy that builds supporters, but also creates a programme for the executive to follow. Political leadership is tactical rather than passive.

Some scholars of British politics make this kind of argument too. Of course, there is much written on British government that says the opposite, such as the claim that decision-making proceeds by lurches, where governments over-respond to crises, creating policy disasters as a result.[22] In such explanations, governments cannot control the entrepreneurial acts of ambitious ministers who are keen to advance their careers by risking new policies. A picture emerges of an unresponsive and risk-taking cadre of office holders. However, an alternative literature, originating from an older tradition of study, suggests that governments and their leaders are much cannier. They seek to be both responsive, adapting policies in the light of events, but also to avoid risk by staying the course and acting responsibly.[23] Governments do not just aim to produce popular policies, but practise statecraft, which Bulpitt defined as 'the art of winning elections and achieving some necessary degree of governing competence in office.'[24] Political leaders seek to discover a governing formula or a political code, which sustains itself over time, protects the

[22] David Butler, Andrew Adonis and Tony Travers, *Failure in British Government: The Politics of the Poll Tax* (Oxford: Oxford University Press, 1994); Michael Moran, *The British Regulatory State: High Modernism and Hyper Innovation* (Oxford: Oxford University Press, 2003); Patrick Dunleavy, 'Policy Disasters: Explaining the UK's Record', *Public Policy and Administration*, 10 (1995), 52–70; Christopher Hood, *Explaining Economic Policy Reversals* (Buckingham: Open University Press, 1994); Samuel E. Finer, 'Introduction: Adversary Politics and Electoral Reform', in Samuel E. Finer, ed, *Adversary Politics and Electoral Reform* (London: Anthony Wigram, 1975), pp. 3–32.

[23] A. H. Birch, *Representative and Responsible Government* (London: George Allen and Unwin, 1964: p. 245; Anthony King, *The British Constitution* (Oxford: Oxford University Press, 2008). He writes, 'The traditional constitution was thus not meant to promote accommodation, deliberation or participation, and it was not meant to promote responsiveness, though in practice it did. But one value it was certainly meant to promote was *government effectiveness',* p. 59, author's emphasis.

[24] Jim Bulpitt, 'The Discipline of the New Democracy: Mrs. Thatcher's Domestic Statecraft', *Political Studies*, 34 (1985), p. 21.

government from external risk and produces successive election victories.[25] Recent work on British politics returns to these classic themes of political calculation and strategy, such as Smith's model of election timing wherein prime ministers use their discretion over the date of a general election to maximize incumbent electoral advantage in light of economic conditions,[26] and studies that find governments minimize the risk of poor performance though the dismissal of ministers.[27]

Drawing on the foregoing ideas, we argue that governments seek to enhance their chances of re-election by managing their risks from attending to particular policy problems. In this way, government is like an investor making choices about risk to yield return on its investments of political capital. We claim that the public provides signals about expected political capital returns for government policies, or policy assets, that can be captured through expressed opinion in polls. Whilst always approximate, these price signals are at times noisier than at others meaning that uncertainty in the environment in which governments must choose policies correspondingly differs. The amount of attention that a government gives to a policy domain, or what we call its investment level in a policy asset, generates return to political capital but also risk due to the variance of each asset and the covariance among them. The nub of our theory is that strategies of statecraft consider risk and return in their policy portfolios and do so amidst uncertainty in the public's policy

[25] Jim Bulpitt, *Territory and Power in the United Kingdom* (Manchester: Manchester University Press, 1983).
[26] Alastair Smith, *Election Timing* (Cambridge: Cambridge University Press, 2004).
[27] Torun Dewan and Keith Dowding, 'The Corrective Effect of Ministerial Resignations on Government Popularity,' *American Journal of Political Science* 49 (2005), 46-56; Torun Dewan and David Myatt, 'Scandal, Protection, and Recovery in the Cabinet', *American Political Science Review*, 101 (2007), 63-77.

valuation.[28] The financial allegory leads us to a novel way for examining and a better understanding of policy-making and leadership in government.

Employing the foregoing logic, we introduce a quantitative method for measuring risk, return, and uncertainty characterizing the policy emphasis of governments. Not only does the framework provide an account that quantitatively captures the complexity and political subtly of contemporary policy making, it also provides insight into how governments highlight particular public policies, the question with which we began. Do the British public reward returns to political capital? Do they punish risky policy investments? How does policy investment fit with general idea about political management and statecraft? We address these questions through a time-series analysis of risk and return between 1971-2000.

In what follows, we set out a theoretical method of pricing policy assets, explain our data in the context of policy-making in British government, introduce our empirical methods, analyse data over periods of recent British political history, and test the impact of investment on governments' electoral performance. We conclude with some reflections on how our account of public policy investment may have more general application to executive decision-making in democracies.

A Theory of Public Policy Investment

Our public policy investment approach can be summarized in the following way. We treat the emphasis of particular substantive policy areas by governments like investment in stocks by a fund manager. Each substantive policy to which a government can allocate attention is known as a *policy asset*. The government

[28] Frank Knight, *Risk, Uncertainty and Profit* (Chicago: Houghton Mifflin Company, 1921).

establishes an initial portfolio of policy assets in its election manifesto. Proportions of attention to policy assets in the manifesto are called initial *investment weights*. The annual Speech from the Throne permits the government to rebalance its portfolio by choosing new investment weights. The public reveals a relative weighting of the importance of the policy assets, providing a *price signal* for the government in its investment decisions.[29] This weighting and re-weighting of policy assets given the information incorporated in price signals yields gains and losses to the government's stock of political capital and reveals a important components of its strategy of statecraft.

Our framework for public valuation of policy assets relies on the arbitrage-pricing model from the financial economics literature.[30] To adapt this model to our political context, we must explicitly consider its core assumptions in the context of the policy investment problem. The first two assumptions relate to the manner in which we characterize voters. First, we assume that voters have homogeneous expectations about policy outcomes. This means that each voter values some mix of policies in the same way as other voters, or some characteristic voter — for instance,

[29] There is, of course, no political market where voters go continuously to the polls with high turnout and assess individual policies. This is arguably the central difference between studies of politics and of economics. However, we claim that citizens can express opinion that we measure through frequent polls. Governments endeavour to learn such information and take it as a price signal for its policy assets. With that information, sometimes noisier than at other times, government makes investment choices. We hypothesize that the resulting risk in the portfolio and returns to political capital investment impacts election results.

[30] Roger Myerson, *Probability Models for Economic Decisions* (Belmont, CA: Duxbury, 2005), p. 317 describes the notion of arbitrage pricing succinctly: 'We would say that an arbitrage opportunity existed if there were some portfolio of loans and assets that an individual could acquire with zero initial personal investment but that would guarantee a positive future return in all states [of the world]. That is, an arbitrage opportunity would be an opportunity to get something for nothing without any risks. Arbitrage pricing theory characterizes financial asset prices when such arbitrage opportunities do not exist.' Consequently, we characterize policy asset prices when the government cannot raise political capital for nothing.

citizens want a safe, quiet life and value some mix of policies they believe will achieve that objective. Second, we assume that political behaviour by citizens is costless and competitive. This implies that participation in the political process allows voters to learn the information they need to know to reveal a relative weighting of the importance of a fundamental set of policy assets at a given time. This does not imply that voters are always certain about this weighting, their price signal. Governments endeavour to learn this importance metric and use it in their political capital investment decisions.[31]

A central assumption used for arbitrage pricing in financial markets is that the number of possible policy assets is large.[32] This would allow the government to eliminate idiosyncratic risk from its portfolio through diversification — that is, by holding a variety of policy assets. It is certainly true that governments implement a wide array of policies that change over time, but voters would have no hope of being able to understand each of these policies sufficiently to develop a relative weighting.[33] In this light, we define policy assets as identifiable subsets of policies that voters cognitively collect and consider important across longer time periods. This is a much smaller set of assets. For instance, industrial policies relating to production, taxation, finance, trade and employment vary substantially over time, but we claim that they are incorporated into a single macroeconomic policy asset

[31] Executives make frequent use of private polls to find out what concerns the public: see, for instance, Robert M. Eisinger, *The Evolution of Presidential Polling* (Cambridge: Cambridge University Press, 2003).
[32] Stephen A. Ross, 'The Arbitrage Theory of Capital Asset Pricing', *Journal of Economic Theory* 13 (1976), 341–360.
[33] The notion of a fully informed voter does not comport with evidence from the political literature. See, for instance, Larry M. Bartels, 'Uninformed Votes: Information Effects in Presidential Elections,' *American Journal of Political Science* 40 (1996): 194-230.

that is valued by voters in each of the years of our study. The resulting small number of assets violates the assumption, rendering arbitrage pricing an approximation, rather than an exact rule for valuing policy assets.

This does not render the method inappropriate.[34] The approximation makes the government less able to understand the public valuation, and this problem is more acute at some times rather than at others. When assets are characterized by high degrees of idiosyncratic risk, as opposed to the factor, that we describe below, the arbitrage-pricing rule is less accurate.[35] That is to say that the more returns to a policy asset depart from the linear factor model described in the next paragraph, the less accurate is the pricing mechanism. We say that periods of public policy investment can be characterized by varying levels of *uncertainty* in price signals from voters. To understand the magnitude of such uncertainty and its effect on governments' public policy investment, we employ a Monte Carlo method for estimating it that is described in the following section.

Another key assumption of the arbitrage-pricing model is that returns are generated according to a linear factor model. Building a formal language for our argument, we claim that the government realizes political capital returns v_i for each of the n policy assets and each asset return has an idiosyncratic component e_i that impacts that asset alone. By contrast, all assets are impacted by a set of k

[34] Scholars have shown that in reasonably small economies, equilibrium deviations of prices based in arbitrage pricing theory are quite small. See, for instance, Mark Grinblatt and Sheridan Titman, 'Factor pricing in a finite economy,' *Journal of Financial Economics* 12(1983), 497-507. Those economies are still considerably larger than the problem we address here.

[35] Most importantly, the pricing errors to the government's portfolio that occur when assets are few can be shown to be an increasing function of the idiosyncratic variance of asset *i*'s returns and the investment weight of *i* in the portfolio, scaled by a ratio of returns and variance in an efficient portfolio. John J. Beggs, 'A Simple Exposition of the Arbitrage Pricing Theory Approximation,' *Australian Journal of Management* 11 (1986), 13-22.

competence factors that relate to the ability of the government to achieve return to political capital investment. *Competence factors* are unexpected changes in conditions that effect government performance but are difficult for governments to significantly influence, at least in the near term. In financial markets, such factors have been estimated through measured innovations in macroeconomic variables that a single firm, whose stock shares are priced in the market, cannot impact on its own —industrial production levels, unanticipated inflationary shocks, and so forth.[36] Alternatively, other contributions have relied on factor analytic methods to estimate reduced dimensional representations of these innovations.[37] Our empirical method combines these strategies and is explained in the following section. The main point at this stage is to note that competence factors help or hinder the government in raising political capital from all policy assets. That is, an unexpected foreign crisis or scandal makes it hard to maintain competence in both foreign as well as domestic policy, although the impact of the same shock to competence may differ across those policy domains. The difference can be measured in our framework and forms an important component of understanding government behaviour.

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[36] Nai-Fu Chen, Richard R. Roll, and Stephen A. Ross, 'Economic Forces and the Stock Market,' *Journal of Business*, 59(1986), 383–404; Edwin Burmeister and K. Wall, 'The Arbitrage Pricing Theory and Macroeconomic Factor Measures, *Financial Review*, 21(1986), 1–20; Nai-Fu Chen, Bruce Grundy, and Robert F. Stambaugh, 'Changing Risk, Changing Risk Premiums, and Dividend Yield Effects,' *Journal of Business*, 63 (1990), 51– 70.

[37] Richard R. Roll and Stephen A. Ross, 'An Empirical Investigation of the Arbitrage Pricing Theory,' *Journal of Finance*, 35(1980), 1073–1104; Nai-Fu Chen, 'Some Empirical Tests of the Theory of Arbitrage Pricing,' *Journal of Finance*, 38 (1983), 1393–1414. While not specified theoretically either presently or in the arbitrage pricing literature, the number of factors employed has a relatively modest impact on estimation results. Bruce N. Lehmann and David M. Modest, 'Mutual Fund Performance Evaluation: A Comparison of Benchmarks and Benchmark Comparisons,' *Journal of Finance*, 42 (1987), 233–265.

The linear factor model through which assets are valued can be written in the following way.

$$v_i = \mu_i + \beta_i c + e_i \qquad (1)$$

In equation 1, c is a $k \times 1$ vector of competence factors; μ_i is an $n \times 1$ vector of expected policy asset returns, $\mu_i = E(v_i)$; and β is an $n \times k$ vector of competence factor loadings. The *factor loadings* capture the direction and magnitude of the impact of each factor on the asset returns; when factor *k*'s loading is positive for asset *i*, shocks that increase *k*'s value increase the return to *i* and vice versa. Factor loadings provide important information about the appeal of policy assets to government investors over time. For instance, we shall see that the macroeconomic policy asset can be differentially impacted by macroeconomic, cost of living, and even foreign policy factors. This means that attending to the economy can be much riskier for some governments.

In the next step of our theoretical argument we say that policy asset *i* can be priced as a function of the *risk premium* for each competence factor. We define the risk premium $\lambda_{i,k}$ as the expected return on policy asset *i* when risk comes only from competence factor *k*. This means that if we can isolate risk to asset *i* to come only from factor *k* — which is always mathematically possible in our framework — the risk premium tells us what the expected return would be in that case. Having thus constructed the risk premia for each of the competence factors, expected return for asset *i* can be calculated as follows.

$$E(v_i) = \mu_i = \iota\lambda_0 + \beta_1\lambda_{i,1} + \cdots + \beta_k\lambda_{i,k} \qquad (2)$$

The return for an asset bearing zero factor risk is given by λ_0. Because there is no such asset in the political market we analyse, it is subsumed into the constant (ι is a vector of i ones). The βs are the competence factor loadings from equation 1. Equation 2 states that the price of a policy asset is a linear combination of expected returns in the presence of each competence factor (the risk premia) and the weights of those factors in determining returns (the factor loadings).

The pricing rule (equation 2) is the key connection between policy attention and political capital that lies at the heart of our framework. The price (expected value) of a policy asset is not simply a marginal response to public opinion about it. Equation 2 adjusts our opinion-based returns by the consequence of each asset's exposure to innovations in factors that impact the government's ability to make policy in any domain. The pricing rule is thus not simply a representation of responsiveness; it incorporates the consequences of responsiveness within each and across all policy domains that comprise the assets.

From equation 2, we have the expected value (price) of each asset $E(v_i)$. The government's portfolio return can then be calculated as the following weighted sum.

$$V(p) = \sum_i w_i E(v_i) \qquad (3)$$

The investment weight w_i is the percentage share of attention that the government gives to policy asset *i*. The government's *portfolio value*, then, is a linear combination of the investment weights government chooses for the i policy assets — the prioritisation decision — and the prices for the assets in which it invests as given by equation 2. In the empirical context that follows, we calculate an initial portfolio value $V(m)$ using investment weights from the government's manifesto and a

rebalanced portfolio value $V(p)$ using weights from the annual Speech from the Throne. Both measures are constructed per the rule in equation 3.

The government's *portfolio variance* is then calculated as follows, where both *j* and *i* are policy assets.

$$\sigma^2(p) = \sum_i w_i^2 \sigma_i^2 + \sum_i \sum_{j \neq i} w_i w_j \sigma_i \sigma_j \rho_{ij} \qquad (4)$$

As in equation 3, w_i is the percentage share of attention that the government gives to policy asset *i*. The standard deviation of prices for policy asset *i* is σ_i is and ρ_{ij} is the correlation coefficient between returns for assets *i* and *j*. The amount of risk in the government's policy portfolio is measured by the portfolio standard deviation $\sigma(p) = \sqrt{\sigma^2(p)}$.[38] As specified, risk is reduced in the government's policy portfolio as the correlation between policy assets falls. To reduce risk, governments can rebalance their portfolios to decrease the correlation between the assets they hold and vice versa. This is another important difference from the method employed in the literature on policy responsiveness. We do not treat the emphasis to each policy domain as independent of prioritizing other domains; we believe that attention to the environment can have consequences for government political capital that are related to, say, attention to the macroeconomy. The role of cross-asset correlations in risk calculations is thus a key advantage of our framework.

The foregoing equations formalize the argument about political capital and investment in policy assets with which we began this section. In what follows, we use measures of portfolio risk (from equation 4) return (from equation 3), and competence factor loadings (equation 2) calculated from data between 1971-2000

[38] Harry Markowitz, 'Portfolio Selection', *The Journal of Finance*, 7 (1954), 77-91.

to find out whether the British public reward returns to political capital at the ballot box or whether they punish risky policy investments.

Data and Methods

Using our framework in the context of British politics requires marshalling a great deal of data from a wide variety of sources. We begin by describing why the Britain in the 1970s-1990s is an appealing context in which to implement our framework and to test claims about the impact of risk and return on electoral outcomes. We then take our measures and their sources in turn before describing the statistical strategy for estimating risk, return, and uncertainty.

Case Selection

Between 1971-2000, British policy-making was concentrated in an executive led by the prime minister. There were no veto players at the national and subnational levels,[39] and centralized political parties largely controlled parliament, one being the government.[40] Britain's first-past-the-post (single-member plurality) electoral system usually created a majority of seats for one party after a general election so that it could govern largely unchecked. The government had freedom to determine the content of the policy agenda, which it could use to gain political capital furthering its re-election ambitions. These characteristics make the British setting a propitious — though by no means unique — context in which to apply our framework.

[39] For an alternative view, drawing on the early twentieth century experience and arguing for the existence of a veto player in the form of the House of Lords, see Iain McLean, *What's Wrong With the British Constitution* (Oxford: Oxford University Press, 2010), pp. 86-154.

[40] Gary Cox, *The Efficient Secret: The Cabinet and the Development of Political Parties in Victorian England* (Cambridge: Cambridge University Press, 1987); Phillip Norton, *Parliament in British Politics* (Basingstoke: Palgrave, 2005); Anthony King, 'Modes of Executive-Legislative Relations: Great Britain, France, and West Germany', *Legislative Studies Quarterly*, 1 (1976), 11-36.

Within this system, the prime minister is very powerful, arguably more so than any other European premier.[41] He or she is leader of the governing party, may appoint and dismiss ministers,[42] chairs the Cabinet, is in charge of the bureaucracy and has the freedom to call elections. Consequently, any assessment of risk and return in British government must at the same time appraise the policy investment choices of prime ministers. Even though the historical period we study has two types of party government, Labour or Conservative, it experienced periods of rule by six prime ministers.

The first decade of our study, the 1970s, has been considered a difficult period for political leadership for its three prime ministers: Edward Heath (1970-74), Harold Wilson (1974-76) and James Callaghan (1976-1979). Many observers describe it as a period when the country become ungovernable, racked by internal dissent and militant trade unionism,[43] as well as suffering from instabilities in the domestic economy.[44] The 1980s was a period of controversial, but powerful leadership under Margaret Thatcher (1979-90). The final decade in our study saw John Major (1990-97) trying to keep a long-incumbent government on track,[45] followed Tony Blair's premiership in its early, triumphal phase. In short, we observe

[41] Anthony King, 'The British Prime Minister in the Age of the Career Politician', *West European Politics*, XIV (1991), 31-47.
[42] Anthony King and Nicholas Allen, 'Off With Their Heads': British Prime Ministers and the Power to Dismiss', *British Journal of Political Science,* 40 (2010): 249-278.
[43] Anthony King, 'Overload: problems of governing in the 1970s', *Political Studies,* 23 (1975), 284-295; Anthony King, ed, *Why is Britain Becoming Harder to Govern*? (London: BBC, 1976); Phillip Whitehead, *The Writing on the Wall* (London: Michael Joseph/Channel 4, 1985).
[44] Robert W. Bacon and Walter Eltis, *Britain's Economic Problem: Too Few Producers* (London: Macmillan, 1975).
[45]. Peter Hennessy, *The Prime Minister: the Office and its Holders since 1945* (Basingstoke, Macmillan, 2001), pp. 437-475.

different policy-making environments faced by premiers who had very different skills and strategies — as well as reputations.

Policy Assets

Categories of issues, policy assets, are developed from the coding schemes of the Policy Agendas in the United Kingdom project and that of the Manifesto Research Group.[46] We bridged the Policy Agendas and Manifesto Research Group substantive policy codes to facilitate comparisons between initial and rebalanced policy investments as described in the preceding section.[47] Table A1 of the Annex shows our reconciliation of these schemes and the formation of our policy assets. Manifestos are the source of a government's initial investment weights. We use the Speech from the Throne (often known as the Queen's Speech), an annual statement by the executive of forthcoming policies made at the start of the parliamentary session, to measure investment weights as governments rebalance their portfolios. It is widely agreed that the speech is an important indicator of the amount of emphasis the incumbent government is giving to different policy areas.[48] We created five asset classes from Manifestos Research Group and Policy Agendas major topic codes to measure the policy assets. These asset classes provide

[46] http://www.policyagendas.org.uk. The project coded the Speech from the Throne according to 19 major and 225 minor topic codes, which are common to the Policy Agendas Project and apply to policies comparatively. See Baumgartner and Jones, 2009.

[47] We thank Ian Budge for advice on interpreting and bridging the categories and Judith Bara for supplying the data.

[48] Sara Hobolt and Robert Klemmemsen, 'Responsive Government? Public Opinion and Government Policy Preferences in Britain and Denmark', *Political Studies* 53 (2005), 379–402; Gerard Breeman, David Lowery, Caelesta Poppelaars, Sandra L Resodihardjo, Arco Timmermans and Jouke de Vries, 'Political Attention in a Coalition System: Analysing Queen's Speeches in the Netherlands 1945–2007', *Acta Politica* 44(2009), 1–27; Peter John and Will Jennings, 'Punctuations and Turning Points in British Politics: the Policy Agenda of the Queen's speeches, *The British Journal of Political Science* 40 (2010), 561-586; Will Jennings, Shaun Bevan, Peter John, 'The Agenda of British Government: the Speech from the Throne, 1911-2008', *Political Studies*, 59 (2011): 74-98.

collections of specific policies that, as we have noted, the public understand and can process and are similar to those used in other work on macro-political trends.[49]

The content of the policy assets is as follows. *Social policy* includes welfare state policies regarding services that government provides directly to the public, such as education and assistance for the underprivileged. *Foreign affairs and defence* encompasses international and territorial relations and includes foreign aid. *Macroeconomic policy* includes all aspects of economic policy as well as substantive and industrial policies such as agriculture, labour and employment, banking, finance, international trade, domestic commerce, and transportation. *Infrastructure and environment* covers the environmental and natural resources policy, for instance, energy, parks, natural resources and water. Finally, *law, order and civil rights* is constituted with policies related to freedom of speech and religion, privacy, immigration, crime and terrorism.

Similar to other treatments of the policy agenda and of manifestos, we use percentage attention of the total number of quasi-sentences as against to counts to

[49] Broadly comparable categories are used by Bryan D. Jones and Frank R. Baumgartner, *The Politics of Attention: How Government Prioritizes Problems* (The University of Chicago Press, 2005), p. 240; and Christian Breunig, Christoffer Green-Pedersen and Peter B. Mortensen Aarhus 'What Influences the Composition of Executive agendas? A New Approach to Agenda Setting Dynamics', unpublished paper. Soroka and Wlezien 2009, 65-66, use a range of categories that they collapse into three: 'Defense, Major Social; and 'Other Domestic'. Jeffery Cohen**,** 'Presidential Rhetoric and the Public Agenda**,** *American Journal of Political Science*, Vol. 39, No. 1 (Feb., 1995), pp. 87-107, uses the most important problem data to say that there the three main issues are economic, foreign and civil rights policy. Economic is about taxation, spending, inflation, regulation. Civil rights is about minority issues. John Petrocik, 'Issue Ownership in Presidential Elections, with a 1980 Case Study', *American Journal of Political Science* 40 (1996): 825-50 categorises policies into four: 'social welfare issues' (including social security and education); 'foreign policy/defense'; 'economic issues'; and 'social and other'). There is thus much cross over in these classifications with foreign/defence, the economic, social policy, and civil/minority right coming up as common categories.

develop our measures of the initial and rebalanced investment weights w_i from equations 3 and 4.[50]

Figure 1 shows how investment weights drawn from the manifestos and speeches change over the period of our study. The vertical axes in each panel represent the percentage of quasi-sentences in the Speech from the Throne and manifesto respectively. These weights reflect government priorities over policy, which change over time. For example, the macroeconomy asset received lower investment from the early 1990s as economic conditions improved. There was also a decline in emphasis on foreign policy,[51] and a concomitant rise in social policy and in crime, which was a key part of Labour's policy programme when elected in 1997. Such trends resemble other accounts of policy priorities in the United Kingdom in this period.[52]

Price Signals

In developing our theory, we claimed that the public constructs a relative weighting of the importance of the policy assets that provides a price signal to the government. These signals enter our theoretical framework as item-specific returns, v_i in equation 1, and we measure them using mass surveys that gauge the public's view of the most important problem facing the country, Gallup's Most Important Problem (MIP). Whilst the MIP is not a perfect measure,[53] it is the primary and most

[50] Baumgartner et al. 2009, p. 610.
[51] The emphasis on foreign policy in the speech is high, but this reflects the traditions of the speech in drawing attention to such matters by the head of state.
[52] Jennings et al 2011. Patterns also parallel trends in other policy outputs, such as budgets: see Soroka and Wlezien, p. 80.
[53] Christopher Wlezien. 'On the Salience of Political Issues: The Problem With 'Most Important Problem', *Electoral Studies* 24 (2005), 555-79; William Jennings and Christopher Wlezien, 'Distinguishing Important Issues and Problems,' *Public Opinion Quarterly,* forthcoming.

widely available indicator of the public's relative prioritisation of the focus of government attention and activities. It also exists in reliable form for a significant period of time, monthly between 1971-2000.[54] We developed a coding scheme shown in Table A2 of the Annex that relates MIP categories to the five policy assets introduced above. This scheme was used to develop our measures of returns.

Competence factors

In our framework, a set of competence factors, $c = (c_i, \cdots, c_k)$ in equation 1, capture unanticipated volatility in political-economic conditions that impact the government's return on any policy asset. The factor loadings are estimates of the influence of each factor on each policy asset's returns, and this allows for different influences of the same factor on different assets at different points in time. When these factors are favourable to returns (positive loadings), they render the government a more competent policy investor, and when they are unfavourable (negative loadings), they make the government's investment choices seem less competent to the public, lowering expected return through the asset pricing rule (equation 2).

[54] Specifically, the MIP data were reliably available between April 1, 1971 and December 31, 2000 as recorded in Anthony King and Robert J. Wybrow, eds, *British Political Opinion 1937-2000: The Gallup Polls* (London: Politico's, 2001), pp. 261-273. Gallup asked the question 'Which would you say is the most urgent problem facing the country at the present time?' The interviewer asked a series of closed-ended questions, which changed over time, and where there was the possibility of responding 'other'. Gallup did not poll in every month for every asset component. In the event of gaps in polling, we carried forward the MIP value from the last recorded poll. This method avoids assumptions about the trajectory of missing data and is warranted given the relatively small amount of missingness throughout this period.

To measure the factors, we implement the following procedure. We first selected three observable economic indicators: inflation,[55] unemployment[56] and stock market performance (FT 30).[57] Fluctuations in these indicators impact on the wellbeing of citizens through purchasing power and financial security. A fourth indicator captures cross-asset strain from foreign crises involving the UK, such as military actions and diplomatic dilemmas.[58] Voters' sense of national security and stability is affected by events of this kind. The fifth observed indicator focuses on political crises within the government itself, namely, ministerial resignations. We indicate events caused by personal error, departmental error, sexual scandal, financial scandal, policy disagreement and personality clash.[59] Our claim is that these types of resignations could not have been fully anticipated by the prime minister and created shocks that impacted returns across assets. Such events impact

[55] Our measure of inflation is the monthly relative price index from the Global Financial Data electronic database. The measure is drawn from a hypothetical bundle of items reflecting typical household expenditures. See, for example, E. H. Phelps Brown and Sheila V. Hopkins, 'Seven Centuries of the Price of Consumables, compared with Builders' Wage-rates,' *Economica* (November 1956), 296-314.

[56] Unemployment is measured by the number of claimants in the UK as a percentage of the sum of employees, self-employed individuals, members of the armed forces, and government training programme enrolees and the claimant total. This measure is available from the Global Financial Data Series.

[57] The daily FT 30 index was obtained from Global Financial Data and is based on an equally weighted sum of values for 30 constituent stocks chosen by editors of the *Financial Times*. Monthly averages for the index are employed in our analysis.

[58] Dyadic-level international crisis data (version 2.0), Joseph Hewitt, *International Crisis Behavior Project*, July 9, 2003, http://www.icbnet.org/Data/index.html, see Joseph Hewitt, 'Dyadic Processes and International Crises', *Journal of Conflict Resolution* 47 (2003), 669-692. Even though government plays a role in responding to the crisis, it is unlikely that the conflicts involving the UK are caused by the specific policy of the UK government, but where crises commonly emerge through events happening, such as civil wars, regime changes or policy shifts by the large players. Thus our argument is that the UK government would not have anticipated, for example, the Falklands war in 1982, nor the end of authoritarian regimes in central Europe in 1989. We do not weight these conflicts by major issue or by type of partner.

[59] We thank Keith Dowding for supplying the data. See Keith Dowding and Won-Taek Kang, 'Ministerial Resignations 1945-97', *Public Administration,* 76 (1998), 411-429 for details of the coding scheme.

citizens' trust and confidence in the government's ability to make policy. These observed indicators provide the data source for the competence factors.

The second step in our measurement strategy was to submit these observed indicators to a mixed factor analysis.[60] Four factors emerged and correlations indicated that they were associated with *macroeconomic*, *cost of living*, *foreign policy*, and *government personnel* conditions. Finally, because the competence factors in equation 1 theoretically indicate unexpected changes, the third step is to measure each factor named above via residuals from time-series regressions of each estimated factor realization in month t on its value in month $t - 1$.[61] These residuals form our competence factor measures.

Risk, Return, and Uncertainty

The estimation of risk and return in the government portfolio and uncertainty in public price signals for the policy assets proceeds in four stages. We begin by estimating loadings β_i on the competence factors through equation 1. This takes the form of time-series regressions of asset *i*'s returns $v_{yi} = \text{MIP}_{yi}$ on the factors, where $y \in [1971, 2000]$ indexes the year. Because each annual regression has a small number of observations (N = 12 months), we estimate the coefficients via bootstrapped ordinary least squares. Factor loadings are the median value and their

[60] The mixed factor analysis is appropriate because of the varying distributions of the observed indicators. Inflation, unemployment, and FT30 measures are continuous whilst interstate crises and ministerial resignations are categorical. We use a routine — polychoric — for the STATA software package introduced in Stas Kolenikov and Gustavo Angeles, 'The Use of Discrete Data in Principal Component Analysis: Theory, Simulations, and Applications to Socioeconomic Indices,' Working Paper, No. WP-04-85, Carolina Population Center, University of North Carolina, 2004.

[61] We estimate via OLS the linear model $f_{k,t} = \alpha + \beta f_{k,t-1} + c_k$ for each of the k = 1,…,4 factor scores that emerged from the mixed factor analysis. The residuals from that model, c_k , are our measures of the unanticipated competence factors in equation 1 from the preceding section. To ensure that factors are available from April 1, 1971 through December 31, 2000 (the time period during which the MIP data were available), we collected our observed indicators starting in March 1971.

standard errors the standard deviation of 10,000 bootstrap draws of the coefficients on the factors.[62] We estimate a total of 600 factor loadings (k = 4 loadings for each i = 5 assets for y = 30 years).

To understand the second step in our estimation strategy, recall from equation 2 that the risk premium $\lambda_{i,k}$ is the expected return on policy asset i when risk comes only from competence factor k. We thus estimated risk premia via constrained OLS regression of returns to asset i, v_{yi} =MIP$_{yi}$, on factor k where the coefficient on factor k is constrained to one. As before, we employ a similar bootstrapping routine because of the small sample (N = 12 months). We estimate a total of 600 risk premia (k = 4 risk premia for each i = 5 assets for y = 30 years), the main difference from the preceding procedure being the number of estimating equations, k = 4 equations for each asset in each year (600 here versus 150 for estimating the factor loadings).

We estimate uncertainty in price signals via standard errors generated in a Monte Carlo procedure [63] Specifically, we draw 1,000 observations from a multivariate normal distribution with means equal to parameter estimates for β_i and $\lambda_{i,k}$ standard deviations equal to the bootstrapped standard errors on those quantities as given by the procedure described in the last two paragraphs. We then use the asset pricing rule (equation 2) to calculate returns for each of the policy assets using each of the 1,000 draws as data. The mean of value of the 1,000

[62] Bradley Efron and Robert Tibshirani, *An Introduction to the Bootstrap* (New York, Chapman & Hall/CRC, 1994). The median is employed because the mean is sensitive to potential extreme value draws.

[63] Our procedure is similar to that in Gary King, Michael Tomz, and Jason Wittenberg, 'Making the Most of Statistical Analyses: Improving Interpretation and Presentation', *American Journal of Political Science* 44 (2000), 347–61; see also Shawn A. Treier and Simon Jackman, 'Democracy as a Latent Variable,' *American Journal of Political Science* 52 (2008), 201-217.

resulting returns for asset *i* becomes our measure of *i's* return, v_i , and the standard deviation measures uncertainty in the price signal for asset *i*. When the standard deviation is larger, the price signal is less clear.

In the third step, portfolio return is calculated according to the formula in equation 3. We calculate two values for portfolio return using the estimated v_i and investment weights, w_i, drawn, (a) from the manifestos and (b) from the Speech from the Throne codings. In the fourth and final step, two values of portfolio risk are similarly calculated according to equation 4 using the manifesto and Speech from the Throne investment weights. To permit useful visualizations of our data, we transform portfolio risk measures as the natural logarithm of the portfolio standard deviation $\sigma^2(p)$ using separately investment weights from manifestos and speeches from the throne. Portfolio return is monotonically transformed by adding its minimum to generate positive values over its range; the natural logarithm of those transformed data is our measure of return.

In all, we generate 150 values each of asset-specific risk, asset-specific return, asset-specific uncertainty, portfolio risk, portfolio return, and portfolio return (one for each for each i = 5 assets in each of y = 30 years). The factor loadings, risk, and return measures just described are assembled into a data set used in the analysis that follows.

Results: Risk and Return, 1971-2000

We present our results in three stages. First, we show a portrait of risk and return throughout the study period. Second, we examine asset-specific returns and associated competence factor loadings over time. Third, we use regression analysis

to examine the impact of risk and return on electoral reward for the incumbent government party.

Portfolio risk and return over the study period are presented respectively in the two panels of Figure 2. The reader can examine these graphs and observe trends over time, which represent the content and impact of investment decisions. The left-hand panel shows the returns governments achieved. The dashed line indicates a counterfactual — the return the government would have obtained had it stuck to its manifesto. Governments want to implement the contents of their manifestos and usually do so.[64] They prefer to avoid costly reversals in policy.[65] This is the dreaded U-turn that successive British prime ministers have learnt never to admit: consider Margaret Thatcher's 1980 party conference speech declaration, 'The lady is not for turning'.[66]

The negative consequences of a U-turn are illustrated early in Heath's premiership.[67] Figure 2 shows the differences between the result he would have obtained from his manifesto and what risk and return he actually achieved. His government generated a very low portfolio return in 1971, much lower than adherence the manifesto would have yielded. But U-turns can be beneficial to a premier. In 1980, the second year of Thatcher's first term of office, Figure 2 shows

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[64] McDonald and Budge, 2005; Judith Bara, 'A Question of Trust: Implementing Party Manifestos', *Parliamentary Affairs* 58 (2005), 585-599.

[65]. See Adam Przeworski, Susan C. Stokes and Bernard Manin, eds, *Democracy*, *Accountability, and Representation* (Cambridge: Cambridge University Press, 1999) for more nuanced views of the salience of the mandate.

[66] Speech to Conservative Party Conference, October 10 1980, see http://www.margaretthatcher.org/document/104431, Accessed 4 April 2011.

[67]. For details, see Dennis Kavanagh, 'The Heath Government' in Peter Hennessy and Anthony Seldon, eds, *Ruling Performance* (Oxford: Basil Blackwell, 1987); John Campbell, *Edward Heath A Biography* (London: Jonathan Cape, 1993); Peter Hennessy, *The Prime Minister: the Office and its Holders since 1945* (Basingstoke, Macmillan, 2001), pp. 331-356.

that had she stuck to the policy content of her party's manifesto the value of her government's portfolio would have dropped quite dramatically. Negative shocks from every factor to the macroeconomy asset were a principal culprit — as we shall see momentarily. But by canny investment and by implication a U-turn — in the same year as her famous speech — Thatcher held a steady stock of political capital throughout the 1980s. It is certainly ironic that the most successful example of a U-turn was from the prime minister who prided herself in not indulging in the practice. Yet this behaviour is consistent with accounts of Thatcher's leadership style. Whilst resolute and strident in public, especially when she needed to be,[68] in practice she was tactical, at least during her first two terms of office.[69] These examples show how our measure provides a unique test of the abilities of leadership by distinguishing between promises and action.

A critical aspect of government leadership emerges by comparing trends in the left and right panels of Figure 2. It is straightforward to observe that manifesto risk and return is always lower than that from the rebalanced Speech from the Throne portfolio.[70] Risk acceptance in policy investment appears to be part of the overall strategy of statecraft. The result, nonetheless, is a remarkably stable set of

[68] Hugo Young, *One of Us* (London: Pan/Macmillan, 1990), pp. 367-371.
[69] Anthony King, 'Margaret Thatcher: The Style of a Prime Minister', in Anthony King, ed, *The British Prime Minister* (London: Macmillan, 1985), pp. 118-120; Jim Bulpitt, 'The Discipline of the New Democracy: Mrs. Thatcher's Domestic Statecraft', *Political Studies*, 34 (1985), 19-39.
[70] Two sample t-tests for mean differences support the claim. For risk, the manifesto mean of 9.953 is significantly less than the rebalanced mean of 11.161 ($|t| = 2.902$, $p = .003$). For return, the manifesto mean of 9.532 is less than the rebalanced mean of 10.162 ($|t| = 1.290$, $p = .101$), though at a lower level of statistical significance.

returns, even in periods of high risk such as the late 1970s and late 1990s.[71] We argue that effective leadership can be found when governments are able to bear the costs of deviating from the investment strategy embedded in their manifestos in order to increase their returns. An active government investment strategy emerges from our analysis as an element of statecraft, and stability is gained at significant risk.

Asset Specific Returns

Underlying the portfolio statistics just discussed are the risks and returns of holding individual assets. These assets are priced, as we have discussed, in environments of greater or lesser uncertainty and we develop a measure that uncertainty. Figure 3 presents the returns and price signal uncertainty over the period. The top panel shows returns for each asset. The primary lesson that emerges is that the macroeconomy is by far the most volatile asset, and the asset about which the public has the most uncertainty in its price signal. Volatility in this asset shows why governments must adjust it nearly constantly over time and in ways that divert from the attention it is given in manifestos as Figure 1 clearly illustrates through investment weights. The macroeconomic asset gets the highest investment weights in manifestos until the early 1990s in our sample, but it is constantly rebalanced in the Speech from the Throne.

Whilst the macroeconomic asset must be actively managed and the consequences are high, other assets appear less problematic for governments.

[71] Standard errors on the portfolio return show it not possible to rule out the hypothesis that the return is zero in most years. This means that political capital is largely unchanged, a very good result for a government as it maintains capital after winning an election.

Returns to social policy and infrastructure and environment are flat in the period, whilst their investment weights are not. Foreign and defence policy and law and order experience temporary large drops in 1971 and 1978 respectively, but are likewise rebalanced quickly. Governments seem to be able to manipulate attention to those assets and achieve stable returns, but this is not the case with the economy. As the economic voting literature suggests, the economy is important, but our results suggest that it is difficult to attend only to it given fluctuating public uncertainty about its value. This happens at particular periods such as in 1978 before Labour's general election electoral defeat amid industrial unrest, and in 1992 after the debacle of the UK's exit from the Exchange Rate Mechanism. Comparisons across assets as permitted by our approach show a much fuller picture of government strategies.

It becomes instructive for our account of policy investment that in some years certain assets perform poorly, partly for reasons in the prime ministers' control (investment weights) and partly out from those of their control (price signal uncertainty). When price signal uncertainty is high, the people are not collectively as clear about — or do not agree upon — the importance ranking of policy assets. This varies substantially among the assets and over time. For example, foreign affairs and defence had the most ambiguous price in 1971, which may party explain Heath's acquisition of it despite the low value of the asset in that year. Indeed, Heath faced significantly more uncertainty across assets than the rest of the premiers in

our sample combined and compared to Thatcher specifically.[72] Thatcher's better outcome from U-turning may well have been impacted by that difference in the uncertainty on the part of the voters. The approximation in the asset pricing rule is much more problematic for some governments than for others.

Factor Risk

The asset pricing rule (equation 2) states that the price, or expected return, of an asset is a function of the factor loadings. It is useful then to examine the factor loadings to understand the factor risk profiles of the various policy assets at different points in time. Figures 4-8 depict the competence factor loadings for each asset over the period of study. When the factor loadings are positive, unexpected positive shocks increase returns; but when they are negative, such positive movements decrease returns.

The figures show considerable variation in loadings over time making this quite difficult to predict. For example, in Figure 4, it would have made sense for Thatcher to invest in social policy the mid 1980s, but not toward the end of her premiership in 1990. In fact, she faced lower less favourable factor loadings on social policy returns than all of her counterparts combined from foreign policy and government personnel factors.[73] Surprisingly, given the Blair government's interest (as shown by its investment levels in Figure 1) in social policy, factor loadings in

[72] A paired-samples t-test of the difference between other premiers and Heath provides evidence for this claim overall (t = -5.306, p = .000) and versus Thatcher specifically (t = -3.437, p = .002).
[73] A paired sample t-test that Thatcher faced smaller factor loadings than a pool of other premiers in regard to social policy supports the claim for the foreign policy ($|t|$ = 1.725, p = .048) and government personnel ($|t|$ = 1.557, p = .065) factors.

terms of foreign policy and the cost of living suggest it was a courageous choice.[74] Figure 5 shows little factor volatility in foreign policy, except in 1971 when Heath invested in it and yielded a very low return. The only factor helping Heath in foreign and defence investments as against the rest of the prime ministers in our sample was the government personnel loading. In 1971, it seems clear that he took on unnecessary risk by investing in European Union policy promises when the returns for foreign policy and defence were negatively shocked by cost of living, foreign policy, and macroeconomic factors.[75]

Consistent with our observations above, the macroeconomic policy asset (Figure 6) is susceptible to substantial factor risk from all sources. This underlies the volatility in its overall performance. As noted in previously, Thatcher faced a significant challenge in this area, specifically from the foreign policy and cost of living factors,[76] whilst Heath was helped by greater loadings on the foreign policy and cost of living factors.[77] Thatcher emerged as the better investor.

Figure 7 provides evidence that the infrastructure and environment asset saw very favourable factor shocks from some sources, but not from others. Major, for example, was hampered by foreign policy, cost of living, and government

[74] A paired sample t-test that Blair faced smaller factor loadings than other premiers in regard to social policy shows this true for foreign policy ($|t| = 1.517$, $p = .070$) and the cost of living ($|t| = 1.463$, $p = .077$) factors.

[75] A paired sample t-test that Heath faced smaller factor loadings than a pool of other premiers in regard to foreign and defence supports the claim for the macroeconomic ($|t| = 1.632$, $p = .057$), foreign policy ($|t| = 2.625$, $p = .007$), and cost of living ($|t| = 2.879$, $p = .004$) factors.

[76] A paired sample t-test that Thatcher faced smaller factor loadings than a pool of other premiers in regard to the macroeconomic policy asset shows this for the foreign policy ($|t| = 2.235$, $p = .017$) and cost of living ($|t| = 2.086$, $p = .023$) factors.

[77] A paired sample t-test that Heath faced larger factor loadings than a pool of other premiers in regard to infrastructure and environment upholds the claim for the foreign policy ($|t| = 2.093$, $p = .023$) and cost of living ($|t| = 3.137$, $p = .002$) factors.

personnel shocks to the value of that asset.[78] Nonetheless, the premiers in our sample did a good job of managing those shocks, yielding a consistent, albeit low, return from that asset.

Finally, factor risk to the law, order and civil rights asset is examined in Figure 8. This asset also sees few periods of factor shocks for much of this period, but experienced dramatic negative factor shocks in the late 1970s. Figure 3 shows able management of that risk by the Labour governments of Wilson and Callaghan to achieve stable returns from that asset. All but the macroeconomic factor created a more difficult environment for those prime ministers.[79]

The Impact of Risk and Return on Electoral Signals

If risk and return matter to governments, they must impact their electoral prospects. Yet the risk-taking behaviour that we have revealed suggests that the timing of decisions to load on risk must be important as well. Scholars of representation note differences in temporal impact as an aspect of concerted government policy decision-making. For instance, Manin, Przeworski, and Stokes write, 'if the incumbent believes that [a] less popular policy is sufficiently more effective than the one voters prefer, he or she anticipates that, having observed its effects, voters will become persuaded that the correct policy was chosen and vote to reelect, so that the politician will be able to continue the policy that is in effect better

[78] A paired sample t-test that Heath faced smaller factor loadings than a pool of other premiers in regard to infrastructure and investment supports the claim for the foreign policy ($|t|$ = 1.496, p = .073), cost of living ($|t|$ = 1.461, p = .073), and government personnel ($|t|$ = 1.886, p = .035) factors.
[79] A paired sample t-test that the Wilson and Callaghan governments pooled together faced smaller factor loadings than a pool of other premiers in regard to law, order and civil rights supports the claim for the foreign policy ($|t|$ = 1.789, p = .042), cost of living ($|t|$ = 2.308, p = .014), and government personnel ($|t|$ = 1.657, p = .054) factors.

for citizens.'[80] Some scholars of British politics have explored a lag structure in government popularity.[81] We test the claim that portfolio risk and return have contemporaneous and one year lagged effects on the electoral fortunes of the governments associated with them.

General election results are a very coarse measure in our sample. To address this problem, we develop an annual measure of government electoral performance using by-election results. Even though by-elections decide single seats with different majorities and are often used by voters to protest against the government,[82] and they can be built into a measure that can be averaged for the period between speeches. Other non-general election measures, such as local election results, are not verdicts on government performance. Our dependent variable, *Government Reward,* is the logged average per cent swing toward the government party in by-elections between 1971-2000, formally, $\ln(1/(1 + \text{swing}))$.[83] Higher values indicate more electoral support for the party in government as results swing to favour the party in government.

Two sets of models are estimated with results presented in Table 2. The second column (Model 1) in Table 2 uses *Risk* and *Return* from based on Speech from the Throne investment weights. Positive values show greater risk or return

[80] Bernard Manin, Adam Przeworski, and Susan Stokes, 'Introduction' in Adam Przeworski, Bernard Manin, and Susan Stokes, eds, *Democracy, Accountability, and Representation*, (New York: Cambridge University Press, 1999), p. 36. See also the related conception of rational anticipation in James A. Stimson, Michael B. Mackuen and Robert S. Erikson, 'Dynamic Representation,' *American Political Science Review* 89 (1995): 543-565 where politicians are concerned about future, not past, elections.
[81] Sanders, Stewart, and Whiteley, 2009, p. 137.
[82] Anthony Mughan, 'On the By-Election Vote of Governments in Britain,' *Legislative Studies Quarterly*, 13 (1988), 29-48.
[83] House of Commons Library, *Election Statistics: UK 1918-2007*, Research Paper 08/12, pp. 38-45. http://www.parliament.uk/documents/commons/lib/research/.../rp08-012.pdf, Accessed 5 April 2011.

from Speech from the Throne investments. Beyond the popular stories about U-turns in British political lore, the learning-in-representation claim made above can be seen to include a pertinent corollary: 'Even changes of conditions that are endogenous to government policy, but were unforeseen by politicians before they reached office may be reasons to change course in the interest of citizens' welfare.'[84] Model 3 tests the reality against the counterfactual by examining the electoral impact of departures from the manifesto through portfolio rebalancing. Model 2 employs *Departures of risk and return* from manifesto values of risk, $\sigma(p) - \sigma(m)$, and return, $V(p) - V(m)$, respectively as the main independent variables. Positive values of these measures indicate that risk and return in the Speech for the Throne exceeds what their values would have been had the government stuck to the manifesto.

Our argument is that risk and return to political capital is managed as an element of statecraft. This implies that the fruits of this investment strategy must not be conflated with a general sense of popularity enjoyed by governments. As a proxy for such overall popularity, we employ Government Satisfaction and Prime Ministerial (PM) Satisfaction polls.[85] These variables indicate the percentage of survey respondents expressing support for the government or for the prime minister in each year. Models 1 and 2 examine the impact of risk and return in Speech from the Throne investments over and above that of baseline popularity. Model 2 uses PM Satisfaction to measure government popularity, whilst model 1

[84] Manin, Przeworski, and Stokes, p. 36.
[85] David Butler and Gareth Butler, *British Political Facts*, 1900-1994 (New York: St. Martin's Press, 1994), supplemented by Ipsos-MORI, http://www.ipsos-mori.com/researchspecialisms/socialresearch/specareas/politics/trends.aspx.

uses government satisfaction. Distinguishing prime ministerial from government satisfaction allows us to address the personal popularity of the prime minister, which at times is different than that of the government as a whole. These variables are, however, highly correlated (.88) and are not included in the same model because multi-collinearity would make their individual impacts difficult to disentangle.

Table 1 presents summary statistics for all variables in the models. Our models, estimated by Ordinary Least Squares, do not display evidence of autocorrelation. We came to this conclusion based on an examination of residual plots as well as the Durbin and Watson (1950; 1951) and Ljung and Box (1978) portmanteau Q statistic reported with the estimation results in Table 2.[86]

Our results suggest that risk and return impact the government's electoral performance in interesting ways. Model 1 suggests reducing portfolio risk contemporaneously helps the government, but risk-taking does so in retrospect as the coefficient on the lag of risk is significantly greater than zero. The public seem willing to accept a riskier strategy from their government, but not immediately as suggested in the representation argument above. As expected, model 1 shows that greater performance is associated with greater returns; both contemporaneous and lagged returns help the government at the ballot box.

The bottom line is that both risk and return influence election outcomes, but the government must carefully consider the timing of risk-taking strategies because

[86] Newey and West (1987) standard errors have poor small sample properties as the authors note. In all cases, they are smaller than the standard errors reported in Table 2, so we choose to report the more conservative estimates given the lack of evidence of autocorrelation.

of the evidence of initial punishment we uncover. Government popularity and investment risk and return collectively explain about thirty per cent of the variance in our measure of electoral reward. The model including government popularity (model 2) explains more of the variance in electoral performance than that relying on prime ministerial popularity (model 3), but both measures are associated with better fortunes for the incumbent government as would be expected.

Model 3 shows a striking contemporaneous punishment of governments who make U-turns from their manifesto to yield greater returns. Differences in risk taking, however, have no effect either contemporaneously or in one-year retrospect. Increased risk from the rebalanced portfolios constructed in the Speech from the Throne does not have negative electoral consequences according to our estimates. Finally, model 4 tests for diminishing marginal impacts of risk and return from Speech from the Throne investments. Our estimates provide some evidence of diminishing marginal returns to risk taking — governments do not do well when taking very large risks to reap big returns to their political capital — but significance is achieved only for a one-tailed test.

Conclusion

To explain for the prioritisation of substantive policies, we have presented a novel account of government as a policy investor. Re-election seeking governments manage their political capital by investing in policy assets, which are aspects of the policy agenda that are priced by the public. Rather than directly and strictly responding to concerns expressed by the public, governments carefully consider a policy's risk profile and expected return in the calculation to invest. In this way,

governments aim to get a return on their public policy decisions by taking into account the riskiness of each asset at different points in time. The core of our theory is derived from well-established work in financial economics, which we have adapted to a political context.

Such an account is novel because existing theories of the prioritization of policies regard it as driven by external factors, whether public opinion itself, competition for the median voter, or information processing by agenda setters. Complementary to these models, we present an account of incumbent office holders as investors who realise that they are guided by these outside factors, but have discretion to concentrate their efforts where to shore up their political capital. We believe this is consistent with how office holders respond to day-to-day problems and seize opportunities. We trust our account of the politicians in charge, such as the contrast between the management strategies of Heath and Thatcher, is one that is recognizable to seasoned observers of British politics.

Our analysis uncovers several important elements of leadership by British governments. First, governments take more risk when investing in policy assets whilst in government than they do in their manifestos. We find evidence that the voters do not punish this deviation from the government's electoral promises. Second, the timing of investment decisions is very important. Risk from unexpected shocks to factors impacting all policy assets can fluctuate dramatically over time and across assets. Large return from a manifesto departure hurts government performance in by-elections during the year it occurs and would make re-election difficult if done too close to a general election. That punishment fades after a year,

however, and increasing returns do help performance generally and the favourable climate created by good returns persists into the following year. Third, macroeconomic policy-making faces the greatest volatility in factor risk of all policy assets. Fourth, governments do a lot of rebalancing of their policy portfolio to achieve stable returns to their political capital and preserve the stock they had upon winning the election. Fifth, some prime ministers face noisier signals about the value of policy assets from the voters than do others, and this makes their investment choices relatively more difficult.

Britain provides propitious conditions for implementing our policy investment approach. Governments between 1971-2000 were untrammelled by election bargains or negotiations across separated institutions in systems with a separation of powers.[87] The prime minister can concentrate on investment choices as he or she can generally control cabinet colleagues, be secure in office for up to a five-year term, and face no veto players in the second chamber or in other branches of the state. Indeed, we draw attention to a neglected line of writing about British politics that stresses the freedom the executive has to determine the agenda to produce responsible and responsive government. The irony suggested by our results is that through constitutional reforms that allocate powers to other actors, the governments elected since 1997 have been tearing down the very features of the British state that helped enable the policy investor. Nonetheless, we expect our

[87] The UK experiences periods of coalition government like other political systems, such as the government in office since May 2010. In these cases, parties trade manifesto items and bargain for space in the Speech from the Throne. In other respects, the policy investment model described in this paper continues to apply with coalition agreements providing initial policy weights rather than individual party manifestos.

policy investment approach to produce valuable insights into the future of British politics as well as for political systems with different institutions. Future research should expand our theory and empirical strategy to different nations, periods, and comparative contexts.

Table 1: Summary Statistics

Variable	Mean	SD	Min.	Max.
Risk	11.161	1.595	7.820	14.577
Return	10.163	1.929	0.000	11.177
Manifesto Risk Differential	1.208	0.452	0.392	2.025
Manifesto Return Differential	0.630	2.613	-9.673	10.092
Gov't Satisfaction	31.694	9.077	11.583	49.444
PM Satisfaction	40.797	9.795	21.492	65.278

Table 2: Government Reward as a Function of Risk and Return, 1971-2000

	(1)	(2)	(3)	(4)
$Risk_t$	-0.114+	-0.105+	-0.045	1.178+
	(0.067)	(0.072)	(0.300)	(0.811)
$Risk_{t-1}$	0.170**	0.150*	0.132	
	(0.071)	(0.083)	(0.296)	
$Return_t$	0.789+	0.508	-0.054**	0.327
	(0.565)	(0.611)	(0.025)	(0.616)
$Return_{t-1}$	0.135***	0.103**	0.022	
	(0.043)	(0.042)	(0.021)	
Gov't Satisfaction	0.035***		0.028***	0.034***
	(0.009)		(0.008)	(0.011)
PM Satisfaction		0.026***		
		(0.009)		
$Risk^2$				-0.053+
				(0.037)
$Return^2$				-0.033
				(0.058)
Constant	-13.846**	-10.392	-3.388***	-9.624*
	(6.410)	(6.955)	(0.306)	(4.667)
R^2	.30	.23	.19	.24
N	29	29	29	30
F	3.39**	3.24**	9.99***	12.17***
DW	1.81	1.91	1.89	1.83
Q(df)	7.62(12)	9.32(12)	5.47(12)	7.40(13)

+ p<.10 one-tailed test, * p<.10, ** p<.05, *** p<.01
Heteroscedasticity-robust standard errors in parentheses. DW denotes the Durbin-Watson and Q the Ljung-Box statistics for the assessment of autocorrelation.

Figure 1: Investment Weights, 1971-2000

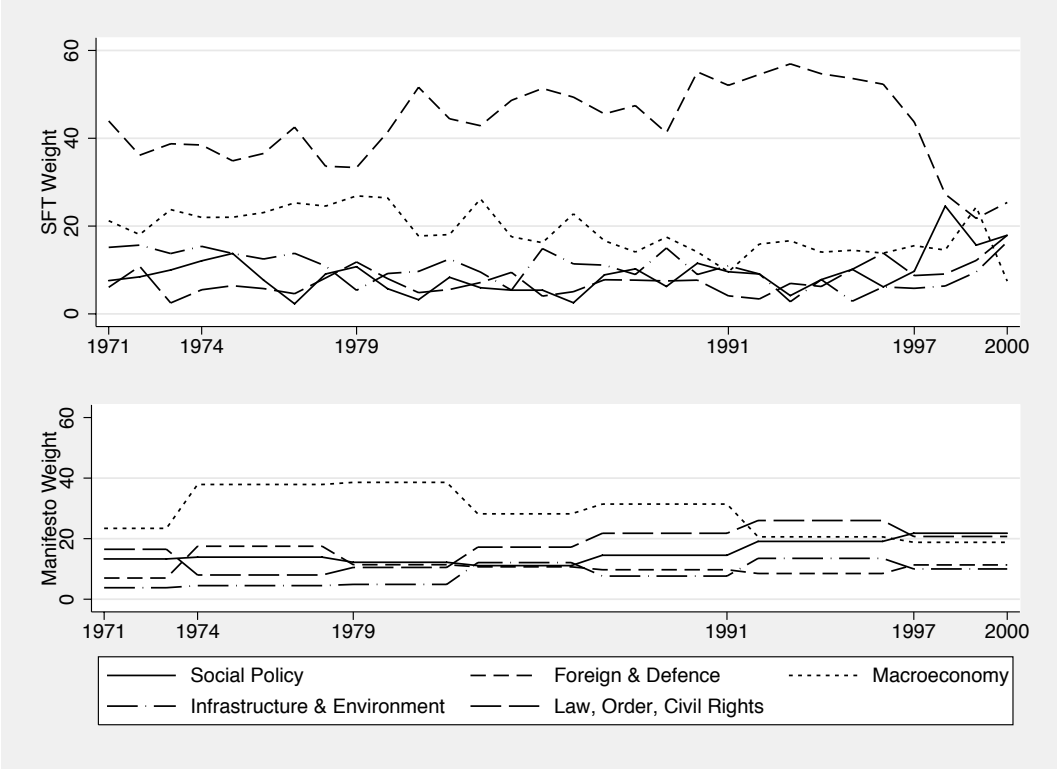


Figure 2: Return and Risk in Speech from the Throne and Manifesto Investments, 1971-2000

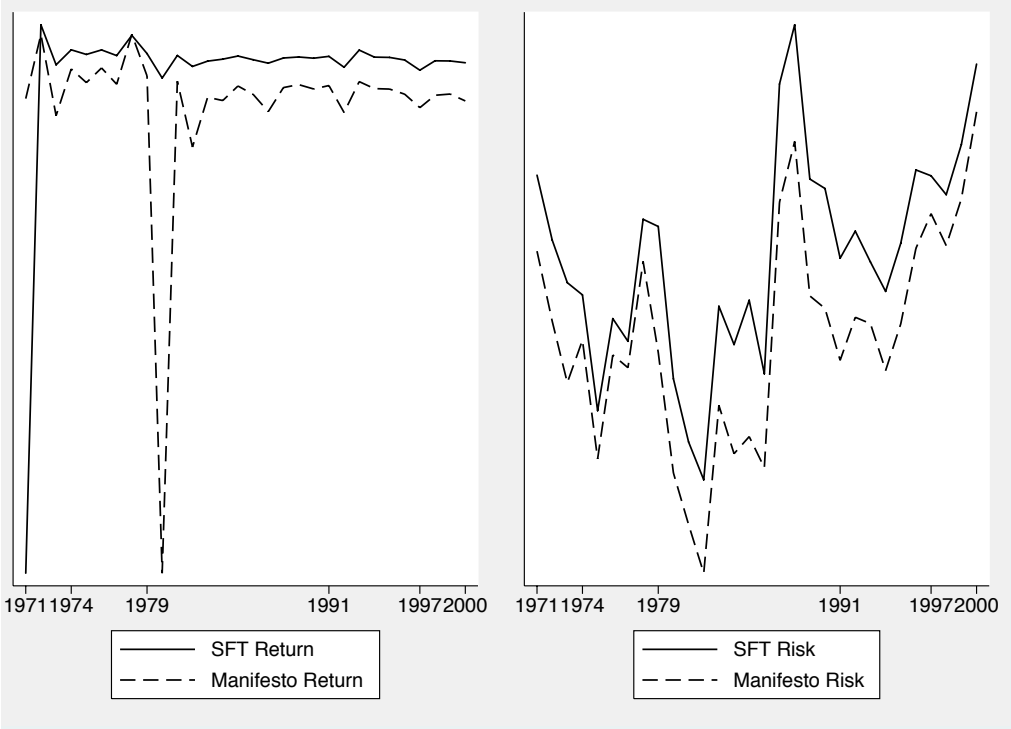
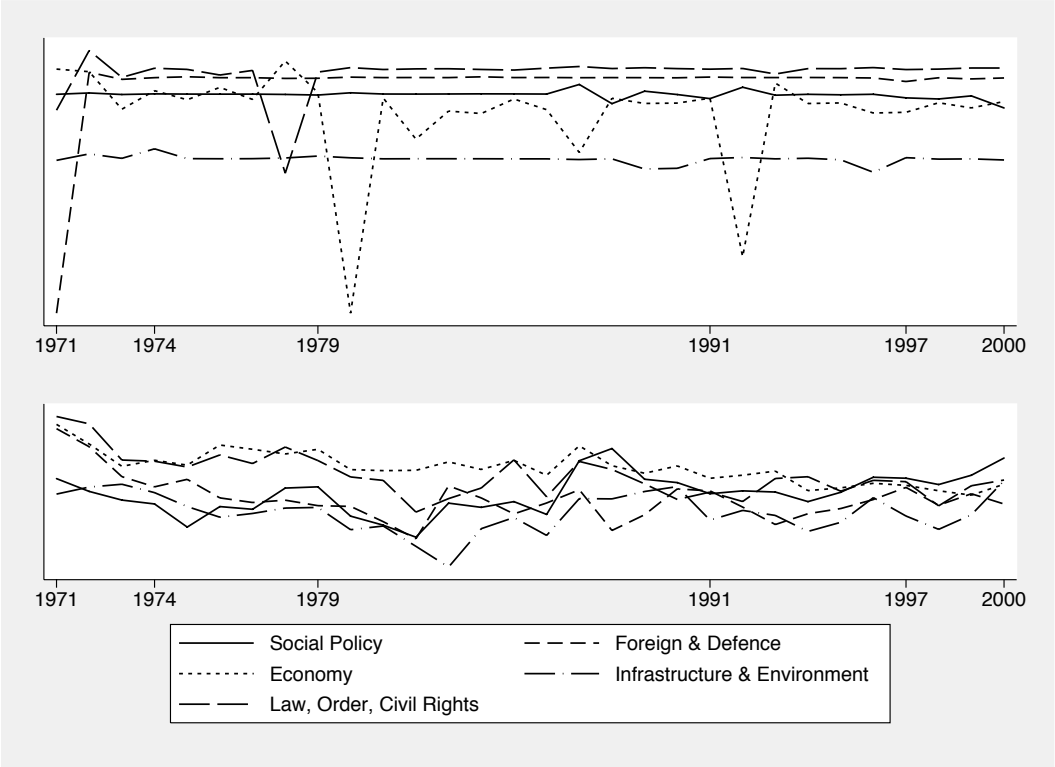
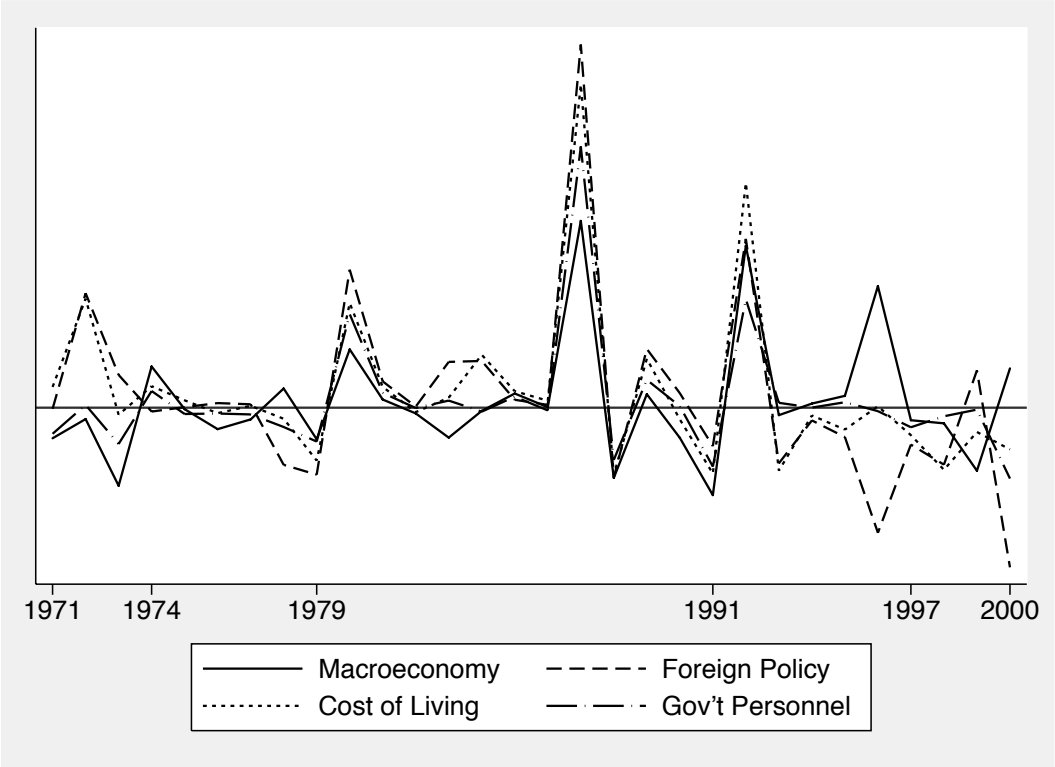


Figure 3: Asset Specific Return and Price Signal Uncertainty



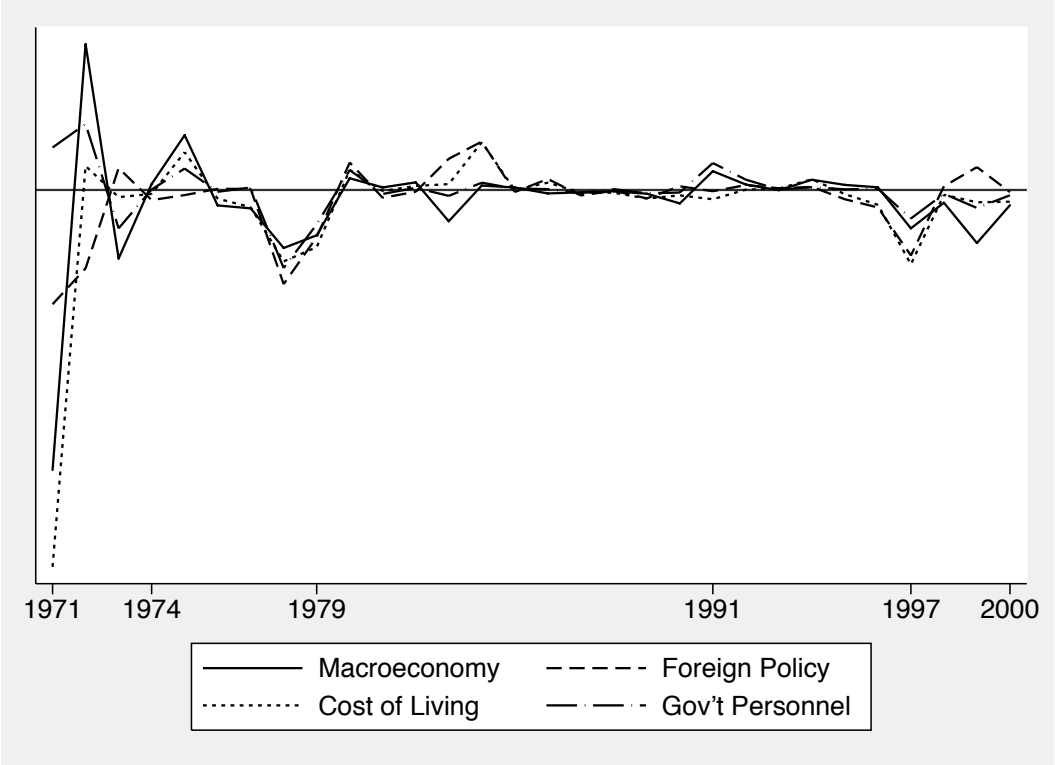
Asset specific return appears in the upper panel. Price signal uncertainty is represented in the lower panel.

Figure 4: Competence Factor Risk for Social Policy Asset



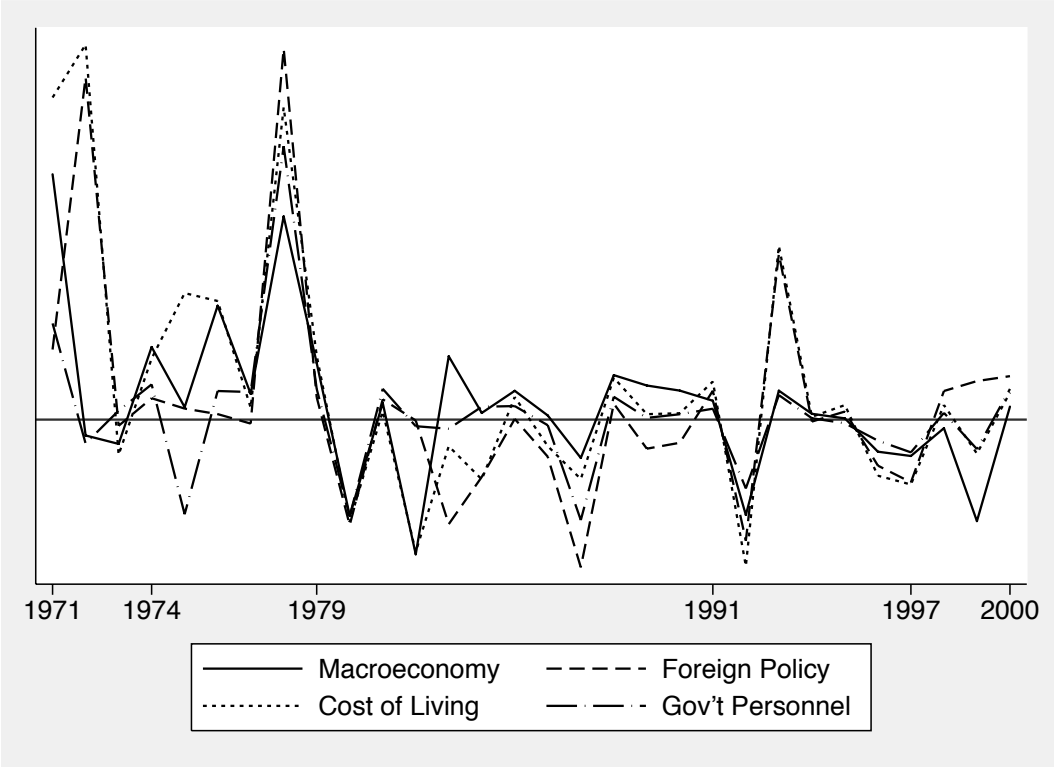
Horizontal line represents zero impact from each competence factor on the policy asset.

Figure 5: Competence Factor Risk for Foreign Affairs and Defence Asset



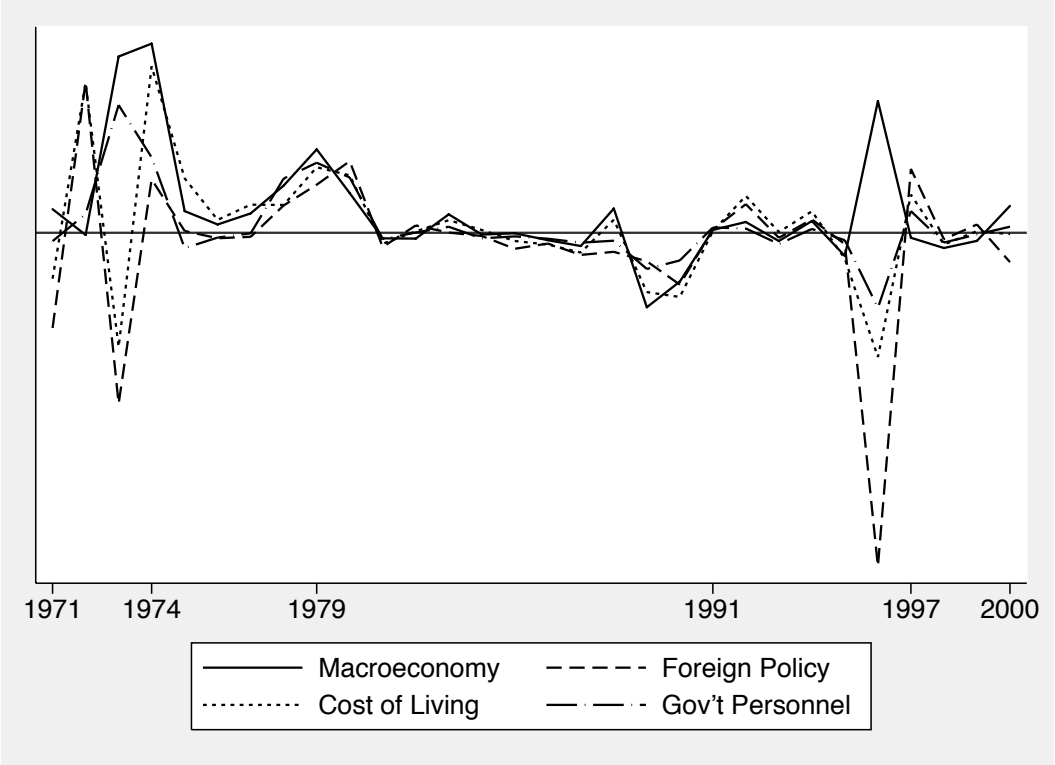
Horizontal line represents zero impact from each competence factor on the policy asset.

Figure 6: Competence Factor Risk for Economy Asset



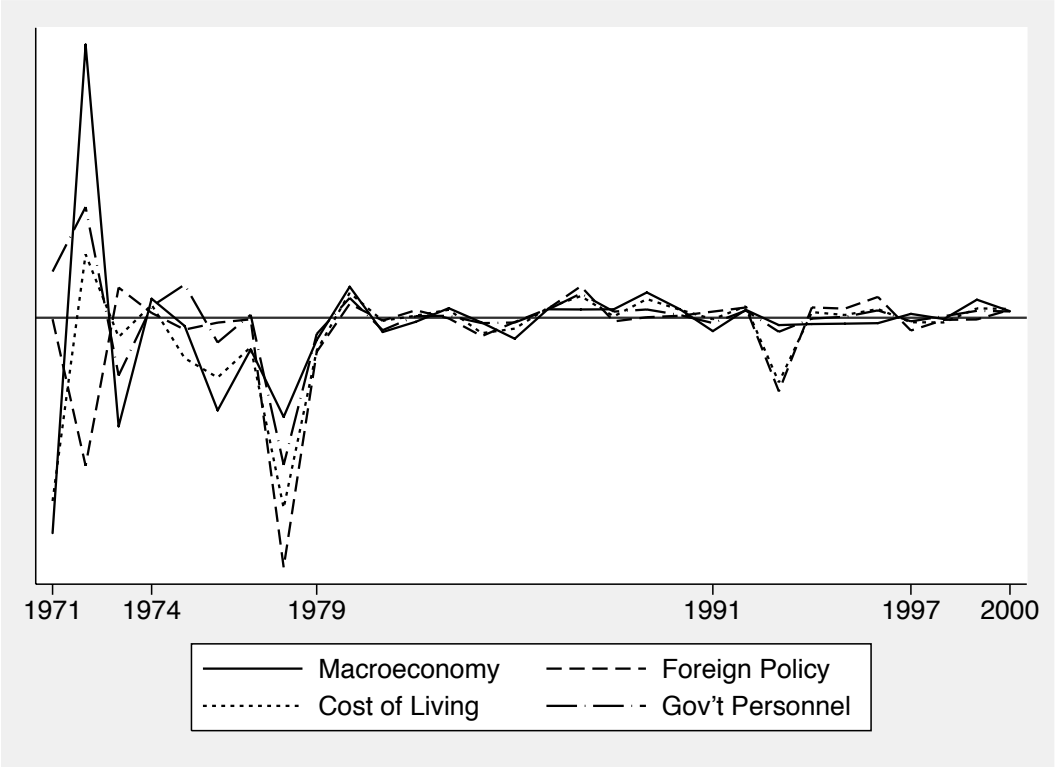
Horizontal line represents zero impact from each competence factor on the policy asset.

Figure 7: Competence Factor Risk for Infrastructure and Environment Asset



Horizontal line represents zero impact from each competence factor on the policy asset.

Figure 8: Competence Factor Risk for Law, Order, & Civil Rights Asset



Horizontal line represents zero impact from each competence factor on the policy asset.

Annex: Coding Frameworks

Table A1: Investment Weight Coding Framework for Asset Classes

Asset Class	MRG Codes (Manifestos)	Policy Agendas Codes (Speech from the Throne)
Social Policy	per502 – Culture per503 – Social Justice per504 – Welfare State Expansion per505 – Welfare State Contraction per506 – Education Expansion per507 – Education Contraction per705 – Underprivileged Minority Groups per706 – Non-economic Demographic Groups	201 – Ethnic Minority and Racial Group Discrimination 202 – Gender and Sexual Orientation Discrimination 204 – Age Discrimination 205 – Handicap of Disease Discrimination 300-399 – Health 508 – Parental Leave and Child Care 600-699 – Education and Culture 1208 – Family Issues (Births, Deaths, and Marriages) 1300-1399 – Social Welfare 1400-1499 – Community Development, Planning, and Housing Issues
Foreign Affairs and Defence	per101 – Foreign Special Relationships: Positive per102 – Foreign Special Relationships: Negative per104 – Military: Positive per105 – Military: Negative per106 – Peace per107 – Internationalism: Positive per108 – European Community: Positive per109 – European Community: Negative per110 – European Community: Negative	1600-1699 – Defence* 1900-1999 – International Affairs and Foreign Aid 2105 – UK Dependencies and Territorial Issues

Macroeconomic Policy	per401 – Free Enterprize per402 – Incentives per403 – Market Regulation per405 – Corporatism per406 – Protectionism: Positive per407 – Protectionism: Negative per408 – Economic Goals per409 – Keynesian Demand Management per412 – Controlled Economy per413 – Nationalization per414 – Economic Orthodoxy per701 – Labor Groups: Positive per702 – Labor Groups: Negative per703 – Agriculture and Farmers	100-199 – Macroeconomics 400-499 – Agriculture† 500-599 – Labor and Employment‡ 1500-1599 – Banking, Finance, and Domestic Commerce 1704 – Commercial Use of Space, Satellites 1706 – Telephone and Telecommunications Regulation 1707 – Newspaper and Broadcast Industry Regulation 1800-1899 – Foreign Trade 1000-1099 – Transportation
Infrastructure and Environment	per501 – Environmental Protection	700-799 – Environment 800-899 – Energy 2101 – National Parks, Memorials, Historic Sites, and Recreation 2103 – Natural Resources, Public Lands, and Forest Management 2104 – Water Resources Development and Resources
Law, Order, and Civil Rights	per605 – Law and Order per608 – Multiculturalism: Negative	207 – Freedom of Speech and Religion 208 – Right to Privacy and Access to Government Information 230 – Immigration 1200-1299 – Law, Crime, and Family Issues‡‡ 1627 – Domestic and International Terrorism

* Excludes category 1627 – Domestic and International Terrorism
† Excludes category 406 – Animal Welfare
‡ Excludes category 508 – Parental Leave and Child Care
‡‡ Excludes category 1208 – Family Issues (Births, Deaths, and Marriages)

Table A2: Return (MIP) Coding Framework for Asset Classes

Asset Class	MIP Question
Social Policy	Health, hospitals and medical services
	National Health Service/Hospitals
	Flu/Epidemic
	AIDS
	Drugs
	Drug Abuse
	Education, services for young people
	Education/Schools
	Social security benefits, social security, welfare
	Poverty, deprivation
	Poverty/Inequality
	Housing, rents, mortgages, rates, mortgage rates
	Housing
	Inner Cities
	Countryside/Rural Life
	Homelessness, homeless, homeless people
Foreign Affairs and Defence	Defence, armaments, nuclear weapons
	Defence/Foreign Affairs/International Terrorism
	Nuclear Weapons/Nuclear War/Disarmament
	International affairs, relations with other countries, peace
	Bosnia
	Kosovo
	German Reunification/Eastern Europe
	Common Market, Europe, Euro
	Common Market/EU/Europe/Single European Currency
	Middle East, Middle East Crisis
	Colonial affairs, Commonwealth, including Rhodesia
	Ireland, Northern Ireland, Irish Problem
	Northern Ireland
Macroeconomic Policy	Economic Affairs, including production, finance, trade and employment
	Other economic affairs, other economic problems, other economic issues, income tax
	Economy, recession
	Economy/Economic Situation
	Cost of living, prices, inflation
	Inflation/Prices
	Unemployment, employment, three day week
	Unemployment/Factory Closure/Lack Of Industry
	Government spending/monetary problems
	Poll tax, council tax
	Taxation, high taxation, taxing systems, taxes
	Taxation
	Increase productivity
	Industry, business, trade
	Privatisation
	Farming, agriculture, countryside
	Food shortage
	BSE/Beef
	Mad cow, mad cow disease, BSE
	Foot and mouth
	Bird Flu/Flu Pandemic
	Foot And Mouth Outbreak/Farming Crisis

	Genetically modified food
	GM/GM (Genetically Modified) Foods
	Pensions, services for old people, services for the elderly
	Pensions/Social Security
	Strikes, labour relations, trade unions, unions
	Trade Unions/Strikes
	Low Pay/Minimum Wage/Fair Wages
	Roads and transport
	Transport, roads, traffic, railways
	Transport, roads, traffic (excl. railways)
	Transport/Public Transport
	Railway Crisis
	Strength of the pound, exchange rates
	Pound/Exchange Rate/Value Of Pound
Infrastructure and Environment	Environment, Ozone Layer
	Floods, weather, water, environment, ozone layer, greenhouse effect
	Weather, greenhouse effect, floods, water
	Environment, ozone layer, greenhouse effect
	Floods, the weather, water
	Drought
	Pollution/Environment
	Nuclear Power/Fuels
	Fuel shortage
	Petrol prices, fuel prices, fuel/petrol tax, problem, crisis
	Petrol Prices/Fuel
	Coal Review/Pit Closures
Law, Order, and Civil Rights	Vice ring, law and order, corruption
	Crime
	Crime, law and order, corruption
	Crime/Law & Order/Violence/Vandalism
	Police
	Immigration, immigrants, asylum seekers, refugees
	Race Relations/Immigration/Immigrants