Stability Pays Dividends: Financial Market Exposure & Political Risk

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Abstract

This paper investigates the causal impact of financial market exposure on partisan identification, using longitudinal data from the United Kingdom that spans from 1999 to 2020. While prior studies have emphasized a correlation between financial exposure and right-wing attitudes, I argue that this relationship only exists at relatively low levels of stock market participation. As a larger proportion of income is derived from investment activities, financial market exposure instead provokes support for political incumbents, irrespective of party ideology. This effect occurs through two key channels: (1) rational risk aversion, in which participants compensate for financial uncertainty with political stability, and (2) social buy-in, whereby recurring investment income strengthens identification with domestic institutions. Leveraging fixed effects in panel data, interactions with party incumbency, and an instrumental variable based on regional variation in financial education, this study finds robust evidence that financial market exposure initially increases alignment with the political right; however, this effect becomes incumbent-biased once investment income is relatively high. These findings offer novel insights into financial inclusion as a strategic and political tool in contemporary democracies.

1 Introduction

Does financial market exposure shape partisan identification, and if so, in what way? The prevailing literature discussing the political economy of financial markets tends to examine the effect of political expectations and outcomes on market volatility (Mnasri and Essaddam 2021; Micozzi et al. 2024; Wong and McAleer 2009). However, few studies have placed financial market exposure (FME) as the explanatory factor in the causal chain of political attitudes. This paucity is not necessarily surprising; as Crane et al. (2024) explain, self-selection into stock market participation and the forward-looking nature of markets makes it difficult to disentangle the relationship between politics' impact on markets and markets' impact on politics. However, since interest, dividends, and capital gains are considered to be the reward for parting with liquidity, it is likely that the act of shouldering risk related to market fluctuations shapes how participants interpret and interact with political institutions and parties. Markets not only respond to political outcomes but also simultaneously *cause* them.

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To the best of my knowledge, this is the first study examining the causal effect of FME on partisan *identification*, rather than focusing solely on electoral behavior. While I draw insights from "economic voting" theories—which depict electoral outcomes as a function of material conditions—I intentionally broaden the conceptual scope in order to evaluate the sociological consequences of investment activity.

The conventional wisdom points to explicit relationships between FME and support for centre-right (Margalit and Shayo 2021; Kaustia and Torstila 2011) and incumbent (Crane et al. 2024) parties. Although these two outcomes are often studied independently, I argue that a holistic understanding of the causal effect of FME on political attitudes must necessarily address the moderating role of the party in power. After accounting for individual characteristics, I suggest that actors self-select into FME due to right-wing, pro-business attitudes. Relatively uninformed participants therefore tend to support centre-right parties' policy proposals as a heuristic for mitigating the increased risk associated with FME. However, as exposure to financial risk and its concomitant remuneration increases, highly involved participants become more likely to identify with the incumbent party, regardless of extant ideological leaning. The latter effect of FME translates into incumbent support through two primary channels—one economic and the other sociological. First, political and economic risk tend to be substitutes, not complements. To mitigate heightened economic uncertainty, stock market participants engage in compensatory behavior that bolsters stability in the political sphere. Similarly, the financial gains derived from domestic institutions also foster an aggregate attachment of "social buy-in," a mechanism through which the inflow of "unearned" revenue deepens a sense of trust and willingness to prioritize sociotropic over egocentric economic concerns.

Using longitudinal data that follows a cohort in the United Kingdom (UK) from 1999 to 2020, I find evidence that supports these two channels. After considering the conditional effect of the party in power, I find that high exposure to financial markets leads to a preference for political stability (incumbents) rather than instability (challengers). When the Conservative Party is in power, this relationship takes on a linear shape, yet when Labour is the incumbent, I find a brief reactionary spike before the incumbent preference takes effect. Employing person and year fixed effects and incorporating an Instrumental Variable (IV), I contribute to the literature by advancing a causal interpretation of the effect of FME on political attitudes. This study also has implications for understanding why political elites might champion financial inclusion programs, offering insights into the origins of institutional trust.

In Section 2, I discuss my argument's relation to extant research examining the sociopolitical consequences of financial inclusion. In Section 3, I outline my theoretical arguments and corresponding hypotheses, and then describe the utilized data and methods in Section 4. In Section 5, I conduct three separate analyses to test my hypotheses. First, I conduct a panel regression spanning 20 years with 1,055,000+ observations. I incorporate interaction terms to consider the temporal dynamics related to the conditional effect of a party being the incumbent. Then, I evaluate the relationship between FME and specific policy preferences to disaggregate the mediating mechansims, utilizing a factor score for economic liberalism. Lastly, I use exogenous regional variation in financial education as an instrument for FME. Section 6 concludes.

2 Market Interactions & Political Risk

From Marx (1867) to Polanyi (1944), grand accounts have depicted social interactions and cognitive logics as structurally embedded within their institutional contexts. In light of the increasingly "mass participatory" nature of Anglophone finance (Davis 2009), contemporary economic sociologists have echoed these analytical frameworks and convincingly demonstrated a resulting "normalization" of economic risk, in which actors who have previously engaged in financial markets are more likely to aggressively invest in the future, irrespective of losses during economic crises (Goldstein and Knight 2023).

While economic behavior is undoubtedly central, the sociological approach has tended to conceptualize "risk" and "risk tolerance" as homogeneous economic phenomena determined primarily by choices related to financial market engagement (*e.g.* whether to invest, what portfolio, how much). As such, the emphasis on actors' internalization of risk as a natural part of the income-generating process implies that actors simply accept financial markets' concomitant risks at face value. This approach runs the risk of ignoring alternative (social, political) tools through which actors compensate for economic uncertainties. Since uncertainty brings the rules of social life back into the analytical foreground (Beckert 1996), the burgeoning economic precarity associated with the convention of the stock market plausibly spills into other spheres of life. While actors may normalize *economic* risk in response to financialization, it is worth considering how investment decisions translate into preferences for *political* risk.

The view that financial risk affects political outcomes is particularly evident in Durnev and Wang's (2021) proposal that an additional function of the stock market is to align voters' preferences with politicians' policies and prevailing institutions. According to Durnev and Wang, citizens that hold firm equity vote according to both political orientation and stock market performance, with the latter taking precedence when corporations perform well. Under this logic, pro-business politicians are more likely to get elected in states when stock market participation and corporate performance are high. However, by considering the supply and demand side of electoral outcomes simultaneously, Durnev and Wang ignore voter heterogeneity and make it difficult to isolate the causal effect of FME on individual behavior. Additionally, their empirical findings contradict a similar study conducted by Crane et al. (2024), which finds that U.S. counties with higher levels of FME are more likely to vote for the incumbent party when the market has performed relatively well, regardless of party ideology. In this sense, stock market participants could politically compensate for economic risk in multiple ways, *a priori*, voting either for incumbent or pro-business parties when these options conflict.

More crucially, neither Durnev and Wang (2021) nor Crane et al. (2024) address individual self-selection into stock market participation based on unobserved factors, which are likely correlated with county and state of residence. For instance, previous studies display that selection into FME is determined by pre-existing social networks (Hong et al. 2004), social trust (Georgarakos and Pasini 2011), right-leaning ideology (Kaustia and Torstila 2011), and political engagement (Bonaparte and Kumar 2013). The real question then, is whether FME still maintains a residual effect after accounting for selection bias.

In an effort to address this puzzle, Moses Shayo has conducted two innovative field experiments, finding that financial market exposure increases support for peace in the context of Israeli-Palestinian relations (Jha and Shayo 2019) and deepens pro-market economic attitudes in the UK (Margalit and Shayo 2021). These studies emphasize the

causal nature of market interactions on socioeconomic values via increased risk exposure. However, experiments intrinsically present limitations in terms of external validity and sample size, constraining the degree to which claims about financial market exposure's effect on electoral behavior can be universalized in different political contexts. Goldstein and Knight (2023) have similarly acknowledged the lack of longitudinal evidence examining the effects of the "portfolio society" (Davis 2009) on economic behavior, much less political preferences. The next step, then, is to explore the impact of FME on partisan support in observational data over time, examining how this effect is moderated by the party in power. Accordingly, the dual channels of the electoral behavior of risk management (*i.e.* support for pro-business vs. incumbent parties) can be explored simultaneously.

3 Theory

3.1 Endogenous Participation

In the context of this paper, financial market exposure is defined as an individual's engagement in equity markets, either directly—through the purchase of individual stocks—or indirectly—via mutual funds, retirement accounts, or other investment vehicles. This exposure is, of course, not random, and actors are more or less inclined to participate in investment activities based on institutional, individual, and behavioral factors (Kaustia et al. 2023). For instance, social networks and ideological norms surrounding "unearned" income play a role in encouraging or dissuading participation. In this sense, left-wing voters' personal values and social networks are on average associated with a form of "stock market aversion" that blocks participation (Ke 2024; Kaustia and Torstila 2011). I therefore assume the association between financial market exposure and right-party identification is at least in part a result of self-selection.

It is reasonable to expect that this relationship is not directly related to traditionally right-wing "cultural" attitudes such as anti-immigrant and pro-family policies, but rather is better explained by conservative economic preferences. Unsurprisingly, individuals who hold more positive views of capitalistic enterprise and free market policies should be more likely to engage in investment activities, as summarized in the following expectation.

Hypothesis 1 *Financial market exposure is positively associated with pro-business and liberal economic attitudes.*

3.2 The Dual Channels of Causal Effects

Nonetheless, after the selection process occurs and investment income begins to flow into participants' bank accounts, I propose the existence of dual channels—risk compensation and aggregate "social buy-in"—that could either (1) bolster this centre-right identification or instead (2) drive participants toward a preference for incumbents. As such, initial political orientation can be overwritten depending on the strength of the economic factors influencing preferences for particular parties. However, I suggest that the risk channel operates as a heuristic only for participants with relatively low financial market exposure as they attempt to compensate for a lack of information: a form of "rational ignorance." Thus, as the degree of financial exposure increases, participants are incentivized to acquire

the relevant information that, in turn, reduces perceptions of economic risk and relaxes the effect of FME on political preferences for the sufficiently engaged investor.

3.2.1 Rational Risk Aversion

I first assume that stock market participation is a form of economic risk, in which participants give up liquidity today in exchange for greater expected income tomorrow. While those who engage in investment activities may possess a higher risk tolerance *ex ante*, the rational response to undertaking economic risk involves attempts to mitigate other dimensions of uncertainty. Consequently, as stock market participants engage in speculative economic activity, they initially counteract this risk by supporting candidates they believe to be best for their investment portfolio. Political and economic risk are therefore not complements but substitutes.

Nonetheless, I suggest that this compensation mechanism operates only at moderate levels of financial market exposure, implying a quadratic, inverted U-shaped function. As depicted in Figure 1, individuals near the y-axis with exiguous financial market exposure possess both limited risk and limited information, and are thus more likely to prioritize their extant political preferences. However, as financial market exposure increases, participants begin to compensate for economic risk by reducing political risk, generating an upward sloping curve. In this stage, participants are not yet strongly incentivized to develop extensive investment acumen and rather rely on partisan support as a Downsian heuristic. Ignorance is rational for the low-to-moderately invested participant because signals of partisan support are a relatively low-cost behavior, whereas information acquisition is costly and its benefits only exceed these costs when financial market exposure is sufficiently high. Yet, after this inflection point, at which the benefits of information acquisition outweigh its costs, participants begin to reduce their perceived economic risk by becoming "experts" and making increasingly more calculated investment decisions. Here, the perceived utility from supporting a particular party becomes less relevant and actors begin to rely on their erstwhile political preferences again.

Figure 1: Financial Market Exposure and Incumbent Support

This relationship can be expressed formally by considering an agent who holds a share α of company equity valued at V. This agent possesses political preferences m, in which $m \in [0, 1]$ and $m = 1$ corresponds to full support for an opposing party. Additionally, $n \in \mathbb{R}_+$ scales the strength of political preference m, such that higher n implies stronger ideological commitment. The degree to which citizens value their political orientation depends on the economic risk λ they are exposed to, which increases *pari passu* with financial market exposure α, and $\lambda\alpha \in [0, 1]$. However, risk λ is inversely related with an agent's information i regarding their investment activities, since well-informed investors are more likely to make prudent decisions that reduce perceived risk. The partisan reservation utility, or the minimum utility required for the agent to signal support for a particular party,[1] is represented by $\overline{U}$. Therefore, a given agent will signal partisan support if the following equality holds:

$$\alpha V - mn(1 - \lambda\frac{\alpha}{i}) \geq \overline{U}, \tag{1}$$

Under the assumption that $\overline{U} = 0$, an agent will signal partisan support if the payoffs they expect to receive from engaging in investment activity are greater than the utility associated with voting for alternative party options, the latter of which depend on the economic risk associated with supporting alternatives. Since markets tend to react negatively to uncertainty, I assume that $\lambda > 0$, indicating that if an agent participates in financial markets to any extent (*i.e.* $\alpha \neq 0$), they will sacrifice a degree of their initial political orientation for political stability. Thus, the trade-off between political and economic risk: Investing in institutions and receiving benefits from their stability placate the possible utility obtained from political change. Nonetheless, this effect is undermined when information increases at a faster rate than financial risk (*i.e.* $\frac{\partial i}{\partial \alpha} > \frac{\partial \lambda}{\partial \alpha}$), which occurs after the inflection point discussed above.

Of course, the crucial and underlying question is whether this heuristic relied upon by moderately invested participants is related to support for either incumbent or centre-right parties. In the UK, public opinion surveys indicate that a clear majority perceive centre-right parties to be associated with better stock market outcomes (Wild 2024; YouGov 2023). However, markets tend to be less volatile when incumbents win elections. To evaluate these two potentially conflicting outcomes, I test the following hypotheses:

Hypothesis 2a *Holding market performance constant, financial market exposure will initially increase identification with the incumbent party, but this effect will be reversed after a certain inflection point.*

This expectation implies a conditional relationship, namely that the strength of the positive relationship between financial market exposure and centre-right partisan identification (as a result of self-selection) is reduced when the incumbent party is left-leaning. However, it is also possible that there is no interaction between FME and party incumbency, and rather FME tends to be parabolically related with Conservative support.

Hypothesis 2b *Holding market performance constant, financial market exposure will initially increase identification with the centre-right party, but this effect will be reversed after a certain inflection point.*

[1] The partisan reservation utility could refer to support either for the incumbent or centre-right party, as explicated by the dual hypotheses 2a and 2b.

3.2.2 The Aggregate Psychology of Social Buy-In

While both theories have *a priori* grounds, the relationship between FME and incumbent support appears more tenable in light of the second theoretical channel: "social buy in." Economic self-interest is not the only avenue through which stock market participation affects partisan identification, but rather the material benefits associated with investment income prompt participants to perceive themselves as beneficiaries of domestic economic institutions—to participants, the system is "working." In this sense, investment income differs from labor income in effect because it can be perceived as unearned. Although this mechanism likely operates below the level of consciousness, the concept of social buy-in indicates that participants become not only stakeholders in particular investment portfolios but also in the nation's stability as a whole.[2]

While this paper's focus rests on partisan identification rather than electoral behavior, my argument can be productively conceptualized within the context of egocentric (self-interested) and sociotropic (collective) theories of economic voting (Kinder and Kiewiet 1979; Shin 2015). In relation to financial market exposure, Elkink et al. (2019) find that sociotropic concerns are more relevant directly after the 2008 financial crisis than directly before, indicating that collective experiences related to highly financialized states can shift voters away from their own pocketbook and toward national economic concerns. I therefore suggest that as households increasingly financialize and collectively experience the consequences of financial market exposure, they become more closely tied to the national economy rather than the *œconomia*. Communities and states with higher rates of stock market participation should then be theoretically more likely to vote along sociotropic lines. In this light, I argue that financial market exposure shifts political preferences m themselves. Formally, if the preference for challenger parties $m = f(\alpha)$ to some extent, $\frac{\partial m}{\partial \alpha} < 0$. By increasing approval of the predominant institutions, high levels of FME shape individuals' preference for incumbent parties. Yet, this mechanism implies a theoretically linear relationship between FME and incumbent support, which contrasts the formerly proposed quadratic function. As such, I test a linear version of Hypothesis 2a to compare the dual mechanisms' effects.

Hypothesis 3 *Holding market performance constant, financial market exposure increases identification with the incumbent party.*

3.3 Scope Conditions

The applicability of this theory is limited to particular contexts—notably democracies—since competitive party systems and universal suffrage are necessary for the proposed mechanisms to function. Similarly, the "incumbency effect" of FME is likely to be more relevant in advanced capitalist economies, where a substantial share of the electorate is engaged in investment activity.

[2]While I explicitly focus on domestic outcomes, the contemporary financial system is undoubtedly *global*. Nonetheless, I argue that the rational risk aversion and social buy-in mechanisms still apply; even if investment is international, participants plausibly prefer stable politicians who are less likely to pursue radical foreign policy.

4 Data & Methods

4.1 Understanding Society

To capture changes in both FME and political preferences over time, I utilize data from the *UK Household Longitudinal Survey*, which is often referred to as *Understanding Society*. *Understanding Society* includes 40,000 UK households and builds on its predecessor, the *British Household Panel Survey* (BHPS), which followed 10,000 households from 1991 to 2009. After 2009, 8,000 of the original households merged into *Understanding Society*. Given my questions of interest (and the waves in which the relevant survey items were asked), the analyzed data ranges from 1999 to 2020, and I use the individual as my primary unit of analysis. I match the survey waves to the externally sourced control variables based on the years that *Understanding Society's* data collection process for each wave began. Overall, this time frame provides critical variation in historical and political events; the data span a global financial crisis (2008), the Scottish Independence Referendum (2014), the Brexit Referendum (2016), a global pandemic (2020), as well as multiple prime ministers from both Labour and Conservative parties.

4.2 Primary Explanatory Variable: Financial Market Exposure

The key independent variable is income from investment activities as a proportion of total income. In every wave, respondents report the dividends and interest they have received in pounds over the last 12 months. I then use this data to construct a continuous variable, $FME \in [0, 1]$, that represents the proportion of this investment income relative to annual gross income. The idea is that this measure captures the relative degree of economic risk individuals undertake resulting from investment decisions. While I would ideally consider the proportion of investment income relative to net income or wealth to more accurately capture perceptions of economic risk, this data is not available for the entire period. In this case, then, gross income can be understood as a proxy for wealth.

Of course, my aggregated measure hinders granular interpretations. Due to survey data limitations, it is impossible to differentiate between various kinds of investment activities, and it is likely that there are heterogeneous effects based on whether an individual receives yields from a government bond instead of dividends from speculative, publicly traded stocks. Nonetheless, lumping these groups together has an alternative advantage, as it inadvertently controls for personality differences that would prompt individuals to invest in funds with varying degrees of risk. In this sense, I am able to better isolate the effect of investment itself, rather than the reasons why individuals initially select particular kinds of investment.

4.3 Primary Dependent Variable: Conservative Identification

In addition to other measures of political preferences, I primarily focus on the effect of investment income on partisan identification. Given that the UK electoral system operates on a First Past the Post (FPTP) electoral system with two dominant parties, I exclusively concentrate on self-reported identification with the Conservative Party. As the primary centre-right party, a clear majority of UK respondents perceive the Conservatives to be the most pro-business political option (YouGov 2023).

I construct the binary dependent variable from the survey question "Which political party do you think of yourself as closest to?" and set the variable equal to 1 if the respondent indicates support for the Conservative Party, and 0 if the respondent indicates support for any other party or no party at all. While this variable does not necessarily measure electoral behavior, it captures signals of conscious support and personal identification with the overall ethos of a particular party. This approach is preferable because it addresses the degree to which investment income not only affects strategic, calculative electoral behavior but also an individual's expressive alignment with a given partisan agenda, an approach which helps illustrate the proposed "social buy-in" mechanism.

5 Results

5.1 Toward Causality: Longitudinal Data

5.1.1 Descriptive Statistics

The analyzed data spans from 1999 to 2020 and includes 1,055,000+ individual-year observations. To ensure the data's representativeness, I first consider the overall proportion of stock market participation over time. Reassuringly, the time trends in Figure 2 are analogous to historic events and business cycles; there are marked declines in participation after the dot-com bubble burst circa 2000, the 2008 financial crisis, and the 2020 global pandemic. This decline in participation and investment income is aligned with Agarwal's (2022) finding that households tend to reduce participation in financial markets as economic and political uncertainty increases.

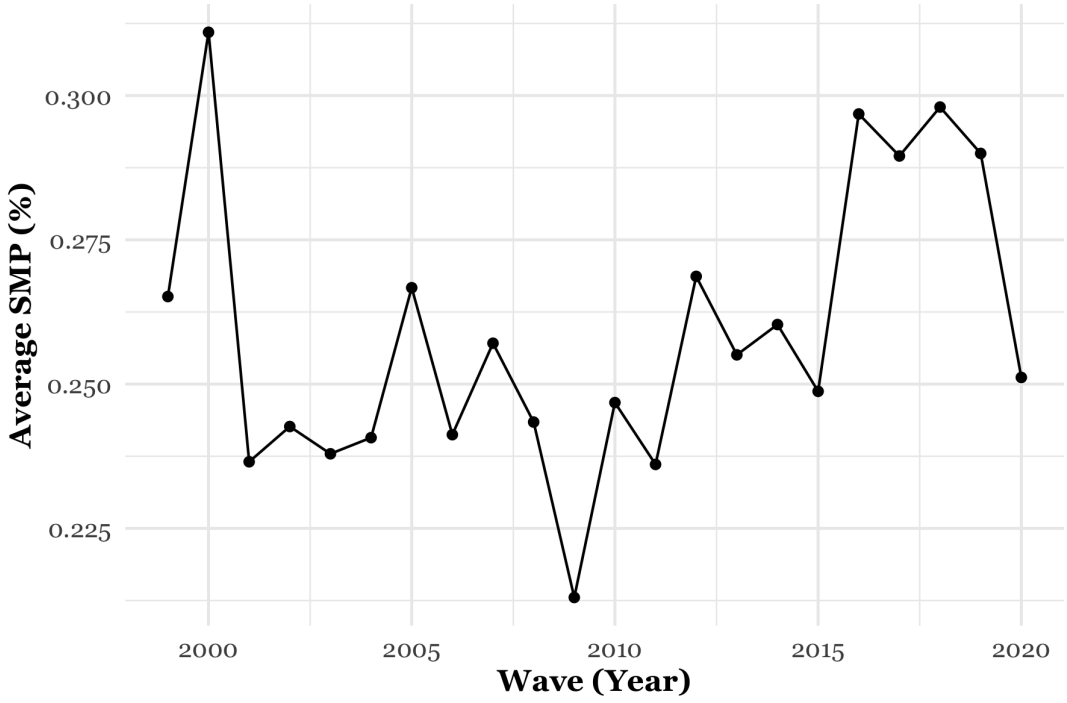

Figure 2: Average UK Stock Market Participation (1999-2020)

Additionally, aligned with initial expectations, Table 1 displays that wealthy, educated, and right-wing individuals are overrepresented in stock market participation. To

evaluate the degree of variation in the dependent variable, I find that, throughout the period, 16,021 individuals transition from not identifying to identifying with the Conservative Party and 24,737 individuals transition from not identifying to identifying with the Labour Party. More formally, I test for unit roots to ensure that the data is stationary for at least some periods, since non-stationarity can lead to spurious regression results (Urdinez and Cruz 2020). Reassuringly, the Im-Pesaran-Shin (IPS) Unit Root Test is significant, indicating that the data does not contain a unit root and thereby satisfying the necessary assumptions for modeling in panel data (Im et al. 2003).

Table 1: Demographics of Stock Market Participation (1999-2020)

		Not Invested (%)	**Invested (%)**
Party Affiliation	Conservative	56.0	44.0
	Labour	74.9	25.1
	None/Other	78.9	21.1
Income Quintile	First	84.0	16.0
	Second	80.1	19.9
	Third	77.1	22.9
	Fourth	71.7	28.3
	Fifth	57.8	42.2
Educational Attainment	No Qualification	84.9	15.1
	GCSE	79.1	20.9
	A-Levels	76.0	24.0
	Other Higher Degree	69.1	30.9
	Degree	60.1	39.9

5.1.2 Regression Results

To address the non-randomness of stock market participation, I first evaluate the effect of FME on identification with the Conservative Party over time. Given the binary outcome variable, $conserv\_id_i$, a logistic regression model is estimated to identify the probability of identification with the Conservative Party. Person fixed effects are incorporated to control for unobserved heterogeneity among individuals, since gender, ethnicity, social class of origin, risk tolerance, and innate cognitive skills likely affect selection into participation. I also control for a vector of variables X_i that change over time, such as educational attainment and income. Year fixed effects are specified to account for time-specific macroeconomic conditions and political events. The variables on the right side of the equation are lagged to capture temporal trends, as depicted in the equation below:

$$\log\left(\frac{P(conserv\_id_{i,t}=1)}{1-P(conserv\_id_{i,t}=1)}\right) = \beta_1\, conserv\_id_{i,t-1} + \beta_2\, FME_{i,t-1} + \beta_3\, FME^2_{i,t-1} + \gamma\, X_{i,t-1} + \eta_i + \delta_t + \epsilon_{i,t} \quad (2)$$

It is well-known that introducing a lagged dependent variable (LDV) into a logistic regression with two-way fixed effects leads to biased parameters (Nickell 1981). However, this bias is of order $\frac{1}{T}$, and since Beck and Katz (2011) indicate that this bias becomes nominal when T is greater than 20, I maintain an LDV model. Including an LDV aids

causal identification and captures the likely inertia of political attitudes. In short, adding $conserv_{i,t-1}$ "introduces history into the model", thereby making the dependent variable also influenced by independent variables of the past $X_{i,t-1}$ (Urdinez and Cruz 2020).

Lastly, to address survey nonresponse, I conduct the Chi-square test and reject the null hypothesis that missingness is orthogonal to observed variables, indicating that listwise deletion may produce biased estimates (Little 1988). To ensure the results' validity, increase the number of observations, and facilitate the lagging of the independent variables, I conduct multiple imputation via chained equations (MICE). Five imputed datasets are generated, and regression estimates are pooled according to Rubin's rules (Rubin 1987).

I find that that receiving income from dividends or interest is associated with a higher predicted probability that a given individual will identify with the Conservative Party (see Table 2). However, my theoretical intuition suggests that this relationship is conditional on the political party in power, so I next consider how this relationship is moderated by partisan incumbency. I expect that the strength of the relationship between FME and Conservative identification is reduced when Labour is in power, and that this effect becomes more pronounced as investment income proportional to total income rises. To test the conditional effect of incumbency, I drop the year fixed effects and instead control for changes in the FTSE 100 index. The FTSE (Financial Times Stock Exchange) 100 is the stock market index tracking the corporate performance of the 100 largest companies on the London Stock Exchange. It is often used as a proxy for macroeconomic expectations and has a direct effect on stock market participants, so incorporating it into the right side of the equation helps to partial out business cycle effects, as displayed below:

$$\begin{aligned}\log\left(\frac{P(conserv\_id_{i,t}=1)}{1-P(conserv\_id_{i,t}=1)}\right) &= \beta_1\, conserv\_id_{i,t-1} + \beta_2\, FME_{i,t-1} + \beta_3\, FME^2_{i,t-1} \\ &\quad + \beta_4\, labour_{i,t-1} + \beta_5\, FME_{i,t-1}\cdot labour_{i,t-1} \\ &\quad + \beta_6\, FME^2_{i,t-1}\cdot labour_{i,t-1} + \gamma\, X_{i,t-1} + \eta_i + \epsilon_{i,t} \quad (3)\end{aligned}$$

While the substantive effect of the log odds coefficients in Table 2 cannot be directly interpreted, the direction and statistical significance of the parameters in Model 3 reveal that the effect of investment income on Conservative identification is conditional on incumbency. When the Conservative Party is in power, the linear term is significant and positive while the quadratic term is insignificant, indicating that higher levels of investment income lead to a consistently higher likelihood of participants identifying with the Conservative Party. Although the linear term remains positive when Labour is the incumbent, the quadratic interaction term becomes significant and strongly negative. This implies an initial reactionary jump in identification with the Conservative Party for those receiving a nominal proportion of their income from investment activities, yet the predicted probability of this effect rapidly declines after proportional investment income reaches $x = 0.56\%$ of gross income. FME is therefore associated with a preference for incumbents, yet this effect is most pronounced for those who receive a greater proportion of their income from investment activities, *i.e.* individuals who take on a greater degree of relative economic risk. Figure 3 displays the predicted probabilities when holding all other variables at their mean.

Table 2: Financial Market Exposure & Conservative Identification (1999–2020)

	(1)	(2)	(3)
FME	0.163***	0.173***	0.118**
	(0.028)	(0.027)	(0.031)
FME^2	-0.004	-0.004	-0.001
	(0.003)	(0.003)	(0.005)
Educational Attainment	0.023	0.024	0.024*
	(0.011)	(0.012)	(0.010)
Income (Quintile)	0.036***	0.039***	0.039***
	(0.004)	(0.004)	(0.004)
Labour (Governing Party)		-0.178**	-0.211***
		(0.033)	(0.037)
FTSE (Annual % Change)		-0.00001	-0.00004
		(0.001)	(0.001)
FME × Labour			1.386*
			(0.344)
FME^2× Labour			-1.328*
			(0.342)
LDV	-0.126***	-0.125***	-0.127***
	(0.012)	(0.013)	(0.014)
Num. Observations	1,055,406	1,055,406	1,055,406
Pseudo-R^2	0.15	0.14	0.14
SE	pidp	pidp	pidp
Person FE	✓	✓	✓
Year FE	✓	✗	✗

Note: $^{+}$ p < 0.1, * p < 0.05, ** p < 0.01, *** p < 0.001
The dependent variable is identification with the Conservative Party. Standard errors are clustered by individual (pidp). Pseudo-R^2 is calculated as 1 - (Residual Deviance / Null Deviance).

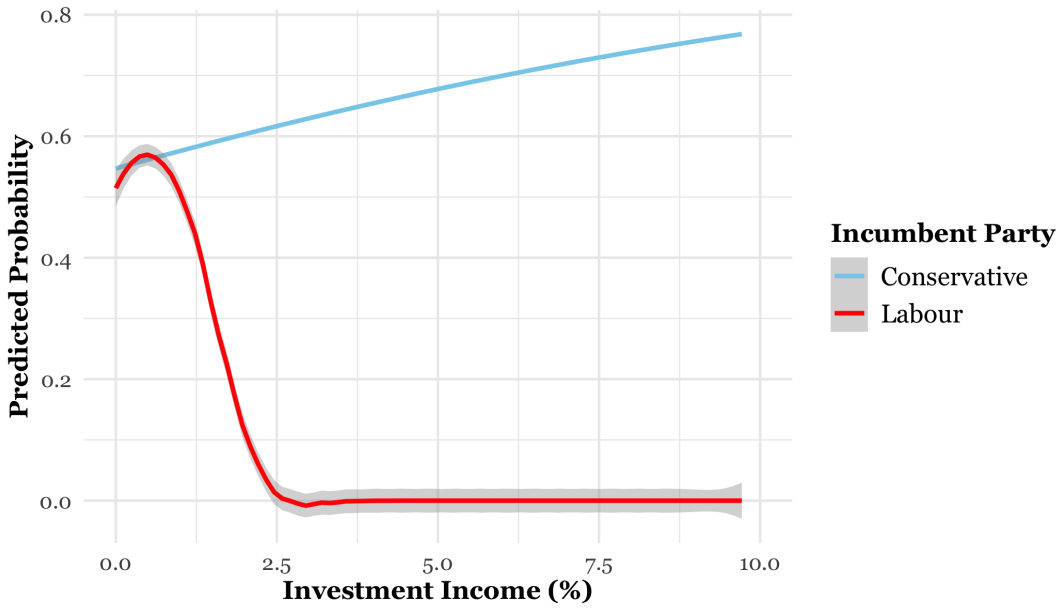

Figure 3: Financial Market Exposure and Conservative Identification

5.2 Pro-Business Preferences As a Mediator

Earlier, I commented that selection into stock market participation is likely endogenous, particularly in relation to pro-business preferences. To explore the specific attitudinal preferences driving the parabolic relationship depicted above and isolate economic rather than cultural factors, I use a Weighted Least Squares (WLS) estimator and consider the effect of investment income on expressed support for economically liberal policies and the populist Brexit party, UKIP/Reform. To first capture policy preferences, I utilize a factor analysis approach using principal components to create a score for latent "economic liberalism" (EL) from granular survey items. This approach helps filter out some of the noise related to cultural factors (*e.g.* immigrant attitudes or family values) that might induce right identification. I include the Likert-scale survey items listed in Table 3 to operationalize support for free market economic policies and meritocratic values.

Table 3: Factor Loadings for Economic Liberalism (EL) Scale

Item	Survey Statement	Factor Loading
`opsocc`	Private enterprise is the best way to solve economic problems	0.448
`opsocf`	Strong trade unions are necessary *(reversed)*	0.655
`opsoce`	Government responsibility to provide jobs *(reversed)*	0.489
`opsocd`	Public services ought to be state-owned *(reversed)*	0.543

My approach builds on Everett's (2013) economic conservatism scale that combines indicators related to fiscal responsibility, limited government, and welfare benefits (reversed). I select items that are traditionally aligned with pro-business policies, including

limited government responsibility in providing jobs and state ownership, as well as positive views of private enterprise and negative attitudes toward union strength. While I find Cronbach's alpha score of $\alpha = 0.613$, which is slightly lower than the traditionally recommended benchmark of 0.7, all variables load positively onto the factor, revealing a moderate correlation between the preferences. The associated specification is then

$$Conserv\_id_i = \beta_0 + \beta_1 FME_i + \beta_2 FME_i^2 + \gamma X_i + \epsilon_i, \tag{4}$$

in which X_i represents a vector of controls that include gender, age, ethnicity, educational attainment, and income.[3] These factors likely influence both political preferences and stock market participation, since older, wealthy, educated, white men should be theoretically more likely to participate in investment activities. Since the relevant survey items were only included in Wave 12 (2020), the data for the following cross-sectional regressions is taken from this wave. As seen in Table 4, FME is positively correlated with meritocratic, anti-union, and laissez-faire policy preferences. However, the quadratic term reveals this function's concavity. While an increase in FME is initially associated with a greater degree of economic conservatism, this effect is eventually reversed as proportional investment income increases.

Then, to further evaluate if the Conservative Party identification is related to support for pro-business policies or rather right-wing cultural attitudes more generally, I consider the effect of FME on support for UKIP/Reform, the right-wing populist party that championed Britain's exit from the EU. I find no statistically significant relationship between FME and UKIP/Reform support.

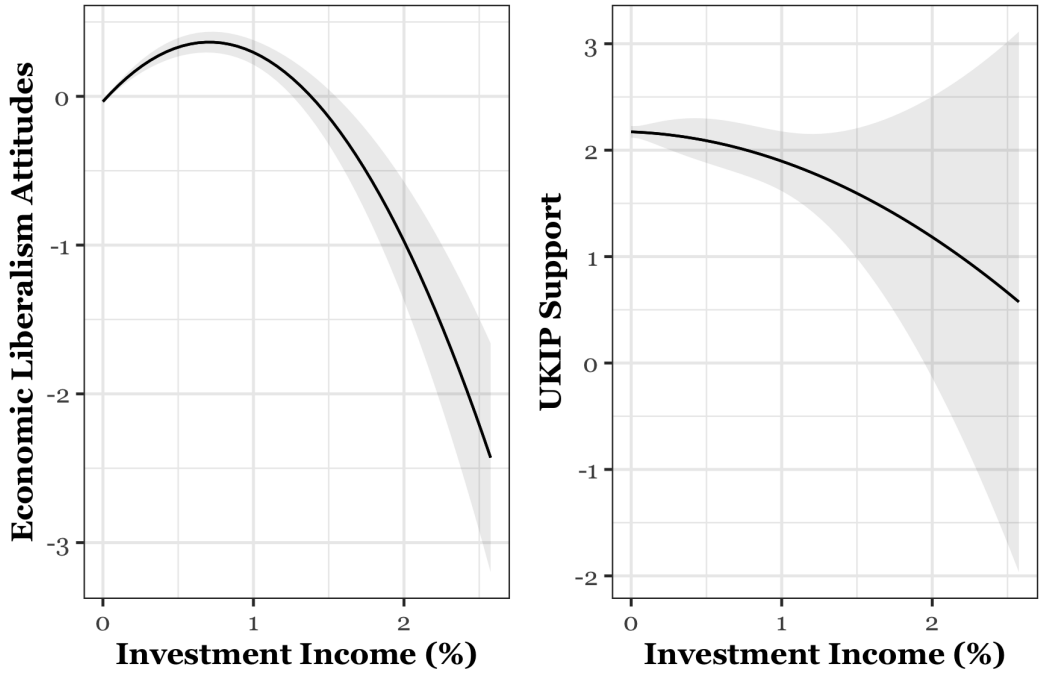

Figure 4: Attitudinal Continuous Predictions by Investment Income

[3]To account for potential non-linearities, I first consider various versions of age and income. While the parameters do not substantially change and R^2 does not statistically differ between the models in which these variables are raw, quadratic, logged, and separated into quintiles, I take the natural log of age to simplify interpretation and account for its likely diminishing effect over time. Additionally, I collapse income into quintiles to address its right skewness and reduce the influence of outliers.

Table 4: Financial Market Exposure & Attitudinal Measures

	EL		UKIP	
	(1)	(2)	(3)	(4)
FME	1.182***	1.130***	-0.170	-0.057
	(0.337)	(0.248)	(0.373)	(0.308)
FME^2	-0.913*	-0.800**	-0.077	-0.219
	(0.372)	(0.268)	(0.302)	(0.197)
Female		-0.078***		-0.179***
		(0.014)		(0.049)
Age (Logged)		0.192***		0.228***
		(0.017)		(0.058)
White		0.186***		0.238**
		(0.021)		(0.076)
Educational Attainment		-0.027***		-0.450***
		(0.006)		(0.020)
Income (Quintiles)		0.042***		-0.116***
		(0.006)		(0.020)
Constant	-0.006	-0.912***	2.261***	3.175***
	(0.007)	(0.068)	(0.025)	(0.238)
Num. Observations	21171	21171	18959	18959
AIC	57936.1	57356.3	97010.8	95667.7
Weights	✓	✓	✓	✓

Note: + $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$.
Models 1-2 represent Economic Liberalism (EL) attitudes and Models 3-4 indicate UKIP support. All models are estimated using 2020 data. Robust standard errors (HC2) are specified in parentheses to correct initial heteroskedasticity, and the relevant weights are utilized in accordance with *Understanding Society's* guidelines.

5.3 Instrumental Variable: State-Mandated Financial Education

To further support a causal interpretation of the relationship between FME and partisan identification, I next present an Instrumental Variable (IV) analysis. *A priori*, whether someone receives financial education in school should be exogenous to political attitudes. In the UK, financial education is a mandatory component of the National Curriculum, a policy that resulted from a bipartisan movement and applies to students ages 11-17 in local authority-maintained schools (Brader 2024). While academies and free schools are not technically required to follow the National Curriculum, many do in practice (Roberts and Long 2025). However, the All Party Parliamentary Group on Financial Education found in 2022 that the implementation of financial literacy is not uniform across schools, and over forty percent of secondary school teachers did not know that financial education was a governmental requirement (All Party Parliamentary Group 2023).

Therefore, I suggest that whether a student is taught in school about the benefits of participating in investment activity should later impact their relative investment decisions while being exogenous to political attitudes, thereby satisfying the exclusion restriction.

This approach builds on the work of Durnev and Wang (2021), which also mentions financial literacy as a useful instrument when evaluating the effect of stock market participation on electoral outcomes. For further support, I also conduct the Durbin-Wu-Hausman test and fail to reject the IV's exogeneity.

Since survey data on the reception of financial education in school is not available at the individual level in *Understanding Society*, regional variation is used. In the UK, there are 12 different regions: the three member countries (Scotland, Northern Ireland, and Wales) and nine other English regions. To capture variation in financial education, I utilize data from the *UK Children and Young People's Survey in Financial Capability* (2019) and operationalize financial education as the regional average of a binary indicator representing the proportion of students reporting having learnt how to manage money in school. Descriptive data is depicted in Figure 5.

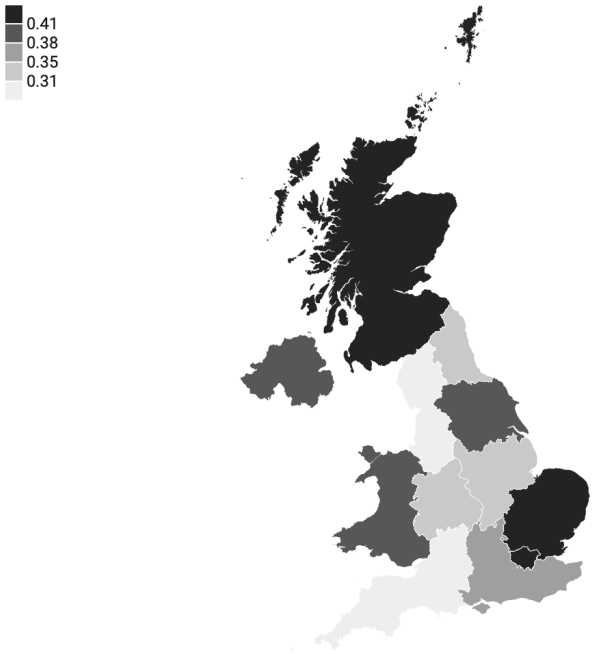

Figure 5: The Proportion of Students Taught Financial Education in School (2019)

I then match this data to the regional averages of the relevant variables found in *Understanding Society*. My 2SLS analysis is therefore a cross-sectional estimate that mirrors the results presented above. Given the small sample size and regional data aggregation, I specify a linear rather than quadratic relationship. Specifically,

$$Conserv\_id_r = \beta_0 + \beta_1 FME_r + \gamma X_r + \epsilon_r. \tag{5}$$

Then, in the first stage, the average FME per region is instrumented by the proportion of children who receive financial education in school, that is,

$$FME_r = \pi_0 + \pi_1 FE_r + \rho X_r + u_r, \tag{6}$$

where FE represents the share of region r's children who receive financial education in school, X_r is the same vector of controls included in equation (5), and u_r is the error term. The idea is that regions with higher rates of financial education should demonstrate greater support for the Conservative Party, given that the Conservative Party is in power

during this period. Unfortunately, since data on UK regional financial education is only available in 2019, it is difficult to determine if this relationship is related to incumbent rather than purely centre-right party support. Nonetheless, it is a useful step toward reducing the endogeneity related to self-selection into stock market participation.

Rather than a fractional logistic regression, Linear Probability Models are utilized to facilitate interpretation in light of their similar substantive effects. To account for heteroskedasticity, robust standard errors are specified, and, reassuringly, no observation possesses a predicted probability outside of the [0,1] range. As shown in Table 5, the 2SLS IV estimates indicate that FME and increased investment income "cause" support for the incumbent centre-right party, with the similarity of the OLS and IV estimates reinforcing claims that endogeneity is likely not a critical issue once other demographic factors are accounted for.

Table 5: Instrumental Variable Regressions

	OLS	2SLS
Constant	-3.738	-3.695
	(4.903)	(4.734)
FME	31.676**	36.398**
	(5.776)	(7.510)
Age (Logged)	1.104	1.186
	(1.585)	(1.711)
Female	2.383	2.377
	(1.893)	(2.339)
White	0.096	0.125
	(0.381)	(0.464)
Education Attainment	-0.279	-0.311
	(0.216)	(0.211)
Income (Quintiles)	-0.494	-0.621
	(0.420)	(0.474)
Num. Obs.	12	12
R^2 Adj.	0.803	0.768

Note: $^{+}$ p < 0.1, * p < 0.05, ** p < 0.01, *** p < 0.001
Heteroskedasticity-robust standard errors (HC2) in parentheses. The dependent variable is support for the Conservative Party.

Nonetheless, these results should be interpreted carefully. The sample size is small, and further regional disaggregation over time would be theoretically preferable in order to more accurately isolate the effect of investment income on incumbent support. Additionally, employing financial education as an instrument assumes that regional variation in curriculum is consistent across time; essentially, regions with higher rates of financial education were just as likely to spend more time teaching students about the benefits of investment in 2019 as they were in the past.

6 Discussion

Does financial market exposure shape partisan identification, and if so, how? After expanding the temporal scope, controlling for unobserved heterogeneity among individuals, and examining the conditional effect of governing parties, my results indicate that previous studies' (Durnev and Wang 2021; Kaustia and Torstila 2011) emphasis on the relationship between FME and right-wing identification is supported only at relatively low levels of stock market participation. As exposure to financial markets becomes more salient, the causal effect of FME becomes incumbent-biased. In light of these findings, on the one hand, I find support for my initial emphasis on incumbent support; as FME increases, individuals become more likely to identify with the incumbent. However, on the other hand, the quadratic relationship depicted from the longitudinal data above functions more along the lines of Conservative support as a heuristic for participants with relative economic risk and limited information. In this sense, the "experts"—those deriving a larger portion of their income from investment activities—are increasingly more likely to support the incumbent, whereas the nominal investor (the actor deriving only 0.0-0.5% of their gross income from investment activities) expresses greater support for the Conservative Party when Labour is in power. The latter result could be interpreted as a type of "reaction," in which the rhetorical threats of Leftist economic policies lead those with limited investment knowledge to react against the Labour Party. As such, this emphasis on Conservative rather than incumbent support as the primary heuristic aligns with UK survey data that display how popular opinion understands the Conservative Party as best for the UK stock market (Wild 2024).

Yet, this finding can also be interpreted in relation to pro-business preferences. Earlier, I discovered that EL attitudes are also parabolically related to FME, peaking at a similar inflection point of 0.7%. Since right-wing populist support is unrelated to FME, I assume that the primary component of right-wing attitudes' association with stock market participation is essentially economic rather than cultural. I therefore interpret the bumpiness of EL attitudes within the context of my extant framework; the initial increase in EL attitudes likely reflects the ways that relatively uneducated investors tend to compensate for increased economic risk, *i.e.* voting against policies that are perceived to be antithetical to investment activity. However, as FME rises and financial market activity becomes more critical to income-generating activity, highly engaged investors plausibly become both more knowledgeable more likely to prioritize sociotropic, macroeconomic concerns—ultimately driving them to recognize the benefits of political stability.

It is also worth discussing the function's non-quadratic nature when the Conservative Party is in power. I suggest that this result reflects the initial heuristic of Conservative support interacting with the expert incumbent preference. Given that both effects tend to push partisan identification in the same direction when Conservatives are in power, it follows that this relationship should not experience the same progressive dip as the function does when Labour is the incumbent. Since these results are also robust to the instrument of regional variation in financial education, it is likely this relationship is not simply the result of self-selection into participation but rather the effect of FME itself.

Yet, as with all causal claims, the results warrant cautious interpretation. While changes in income are accounted for, the absence of wealth data may violate the conditional independence assumption, and unobserved regional factors could influence both financial education and incumbent support, raising concerns about the instrument's validity. Additionally, the generalizability of this theory is constrained by its particular

political and historical context. Throughout the period studied, both Labour and the Conservatives were centrist, institutionalist party options. It would therefore be interesting to examine the strength of this "incumbency effect" with a more diverse party menu, as well as evaluating whether the proposed mechanisms hold weight in alternative forms of electoral systems.

Nonetheless, my findings provide novel insights into the causal effects of FME, with several implications for the political and social consequences of stock market participation. For one, it is plausible that the expansion of financial education and the *moderate* incorporation of a broader section of the electorate into financial markets could increase support for centre-right parties. Future research programs exploring the supply-side effects of financial inclusion should consider political elites' use of propaganda to encourage stock market participation as a tactic to influence domestic politics—as evidenced by Margaret Thatcher's vision of a "shareholder democracy," for instance. Still, my findings imply that, on the demand side of partisan identification, investment decisions have implications for individuals' political alignment, demonstrating that political attitudes are embedded within their dominant economic institutions.

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