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The Economic Impact upon Modern U.S. Elections

James Jackson

1. Introduction

The key component of elected public service is, of course, actually getting elected. Most Presidential candidates spend millions in advertisements and other means to win elections. A substantial part of the budget goes to pay campaign strategists to conceptualize a plan for victory. However, often, as in 1992, the election results may be obvious before the actual election. One thought is that economic conditions heavily influence the results of elections. Economic voting, as it this tendency has been called, occurs when people vote for one candidate because of economic conditions, past or future. Or as Ronald Reagan suggested during the 1980 campaign: “I think that when you make that decision [about voting] is might be well if you ask yourself, are you better off today than you were four years ago?”(Chizmar). Economic voting has been blamed for Bush’s loss in 1992, Carter’s loss in 1980, and attributed to Clinton’s win in 1996. I intend to dispel the myths that against economic voting by showing that it does occur, and examining the four different manners in which it occurs: retrospective, prospective, pocketbook and sociotropic voting.

2. Proof of the Economy’s Affect on Elections

It has been said that that the economy has little or no effect on the results of elections for a few reasons. First, the public must directly attribute poor economic performance to the incumbent(Lanou 1994, 194). Second, they argue that the economy’s affect on election outcomes is transmitted through other factors such as party identification (PID) and policy positions of the candidates. Furthermore, the economy may affect candidates’ decisions to run

for office. If a candidate opposes an incumbent in office with a good economy, that candidate will likely wait to run until the next election cycle. Thus, the argument claims that the economy may affect election results through these other factors, but not the directly by the economy(Fiorina, 1978, 440). Third, in order for the economy to affect election results, the public must carefully follow matters around them, particularly the news. It is claimed that the American people simply do not pay close attention to such matters.

The first argument against economic voting is one that is difficult to refute. Voters must definitely attribute a poor economic situation to incumbents before the incumbents will be blamed and punished for it. Although the data are inconclusive, they show that, in general, people do attribute a poor economy to the actions of elected officials(Kramer 1983, 106). However, most studies show that voters do not attribute personal financial woes to the government. Rather, the government is blamed for the overall economic condition, which is seen to directly influence one's personal situation. Nevertheless, statistics show that economic voting occurs.

In response to the second argument, it seems intuitive that a candidate would choose not to run for office due to the fear of positive retrospective performance analysis of his or her opponent by the public. In a similar way, if candidates fear possible retribution from the public for a job poorly done, that is an indication that there is a correlation between the status of the economy and the election outcome. Further, in no way does the literature on economic voting suggest that the economy is the primary determinant of the election. Instead, it is acknowledged that other factors such as party ID are more important than the economic analysis by the public. Yet, economic analysis remains an important determinant of election outcomes.

In response to the final argument, it is difficult to cite data showing that Americans are paying attention to the news. Yet there is substantial evidence that the state of the economy is a significant factor in the outcomes of elections. First, in every election year since 1936 in which unemployment decreases from the preceding year, the incumbent has won in every election(Stein 1994, 454). Second, it seems that candidates have a particular fear of the public voting according to economic conditions. Edward Tufte shows that the government makes an effort to increase real disposable personal income in the ten to twelve months prior to Presidential and Congressional elections through various policy initiatives(Tufte 1978). In so doing, the candidates acknowledge that voters take economic factors into consideration when voting. Additionally, Richard Nixon in *Six Crises* states that the public consistently votes according to the state of the economy. Furthermore, Bill Clinton tried to capitalize on economic voting with his campaign slogan, “It’s the economy, stupid.” Clearly, candidates think that economic voting occurs.

Arguments also come from the two main theories of voting behavior, the Sociological-Psychological approach, and the Rational Voter Hypothesis. The latter is strongly favored by the economics community, whereas the former is generally favored by political scientists. At the heart of the issue is the respective fields’ assumptions about human nature: political scientists, being skeptical of man’s capability of rational behavior, thus our indirect democracy in America, and economists’ assumptions that the public is rational, and weigh their options and always choose the better(Mueller 1979, 1). “The political scientist’s view of man, the voter or politician is, in general, quite different from that assumed in the public choice models. . . .To many political

scientists the public choice models seem but a naive caricature of political behavior” (Mueller 1979, 5).

The Sociological-Psychological school of thought, as stated in the *New American Voter*, cites the “funnel of causality,” whereby various factors enter into the voting equation (Miller and Shanks 1996). Statistical analysis gives strong support for the contention that the economy affects election outcomes. National Election Studies (NES) survey data shows a strong correlation. For example, in the 1992 election, the coefficient for the economy’s affect on the election outcome was .62 (Miller and Shanks 1996, 378). The immediate response to this is that many other factors go into that sixty-percent Democratic margin in 1992, such as party ID, race, and demography. Certainly this point is valid, which is why the funnel of causality was conceptualized. The affect of the economy is mediated through these other factors such as party ID, and policy preferences. Although sixty percent of the electorate may have voted one way because of the economy, fifty percent of those would have still voted that way were it not for the economy. Nevertheless, the data show conclusively that the economy has a unique contribution to the election outcome of .07 (Miller and Shanks 1996, 490). Thus, the economy does contribute to the outcome of an election, but only after such factors as party ID, demographic issues, socioeconomic status, and other such factors.

As previously stated, the Rational Voter Hypothesis claims that the citizen is an informed individual making rational choices to improve his or her welfare. In terms of voting, this means that a voter will choose the candidate whose administration will yield the greater expected utility. Using econometric models, various “voting equations” have been developed. A standard voting equation is as follows:

$$\text{VOTE} = V + (a)D + (b)(I*G) + (c)(I*P) + (e)$$

Where VOTE equals the percentage of the votes going to the Democratic candidate, V, (a), (b), (c), and (e) are all parameters of the equation, V, and I are incumbency variables, G is the growth percentage of the GNP, and P is the rate of inflation(Chizmar). Ex post, this method has been relatively successful in predicting the correct percentage of the vote going to the Democratic candidate. This is a standard example of how econometric equations have attempted to explain election outcomes through the Rational Voter Hypothesis. Although there is no direct evidence of these equations' validity, this particular equation has predicted all but four of the past eighteen elections. In those four, the percentage estimate of the total vote going to the Democratic candidate was close to the actual outcome(Chizmar). Thus, we again see a correlation between the economy and election outcomes.

Conventional knowledge supports these findings. Despite the fact that Bush had a near record level approval rating a year before the election, he still lost. NES data cited in the previous paragraph shows that economic conditions did contribute to the election outcome. Whether because people perceived greater future utility or they were unhappy with the economy then present, Bush's loss was partially due to the poor economy, even though many who voted against him still would have voted for Clinton because of party ID or policy predispositions. Undoubtedly, economic voting does occur, and although it is not the primary determinant of an election, it can contribute significantly to the overall outcome.

3. Retrospective v. Prospective Voting

There are several questions left to be answered concerning the method by which economic voting occurs. One debate is whether retrospective or prospective candidate evaluations are more important methods of economic analysis for determining the more qualified candidate. Retrospective voting is the method by which a voter will take into account past economic performance under the administration of a certain candidate, and will make a decision to vote for or against the incumbent based on that analysis. Most studies show the most important variables to be inflation, measured by the increase in the consumers price index (CPI), real disposable per capita income, and unemployment. Conversely, a prospective voter will analyze the policies advocated by respective candidates, analyze them, and decide to vote for one candidate because the voter expects one plan to be superior to the other.

At the center of the debate of prospective versus retrospective voting is the economic debate of Rational versus Adaptive expectations(Erikson, MacKuen and Stimson 1992, 598). The former argues that humans are rational, and know what is best for them, and will most always act accordingly. The latter states that people are always looking to where they have been rather than where they are going. Also, people's expectations, caused by current conditions, dramatically affect future economic outcomes. In relation to voting, those arguing for retrospective voting ally with the Adaptive Expectations model, and claim that people are always looking to the past, trying to improve yesterday's problems. Whereas, the proponents of the prospective model argue that people will analyze available options, and choose the most rational. Prospectivists place their confidence in the rationalizing ability of the American people, and feel that they can make rational decisions about their future.

The strongest vein within the prospective voter argument agrees with the Rational Voter Hypothesis, though some proponents exist in the Sociological-Psychological approach. The Rational Voter Hypothesis, as previously stated, says that citizens will vote for the candidate who is expected to yield the greatest amount of future expected utility, that is, the greatest amount of “measured happiness” in the future(Fair 1996, 89). These expectations are derived from the voter’s thoughts about the candidate’s plans for government, or a prospective analysis of the administration. This has been coined the “Banker Hypothesis.” That people act as bankers, and vote according to who will give them a larger balance in their bank account(Erikson et al. 1992, 597). These expectations or predictions concerning future economic situations are almost always a result of personal experiences and the media’s portrayal of the economic future under various candidate’s administrations(Erikson et al. 1992, 605).

A new study by Brad Lockerbie comes out in strong favor of the prospective approach to economic voting. In his study, he finds that prospective economic analysis is an important factor in the individual vote, accounting for about 40 percent of the effect of party ID, whereas retrospective voting accounts for only about 15 percent of party ID(Lockerbie 1991, 247). He attacks the retrospective approach because of the poor picture it paints of human intelligence. He cites several studies which point out that Americans can and do make informed choices about their future well being(Lockerbie 1991, 241). In refuting the retrospectivist argument, he points out that complex economic evaluation of future events is not necessary. People must only choose between two simple choices of whom will benefit their finances more(Lockerbie 1991, 241). Lockerbie further disagrees with the alternate approach to voting because it takes no

account of future utility(Lockerbie 1991, 240). Erikson corroborates these results in his study, finding that the voter tends to act more as a “banker than a peasant”(Erikson et al. 1992, 607).

Within the Sociological-Psychological approach, prospective voting is acknowledged, however, they argue that its importance is far less significant than retrospective voting. Miller and Shanks in the *New American Voter* evaluate prospective evaluations after retrospective evaluations, considering them to be a less significant factor in the election results(Miller and Shanks 1996). Furthermore, the prospective analysis is not necessarily only an analysis of the potential economic situation. It is an evaluation of the overall administration, which is closely tied to politics. Thus, a candidate’s stance on international affairs or abortion may affect the prospective analysis. This fact make prospective voting difficult to measure(Fair 1996, 89). Thus, it is difficult to refer to this phenomenon strictly as economic prospective voting, since other factors enter into the prospective analysis.

The model for retrospective voting first looks at three main statistics as determinants the vote: per capita income, unemployment, and inflation. Second, voters tend to look at the recent past, no more than a year before the election in order to make this decision. One problematic aspect of this is that many economic statistics for the two months prior to the election are not yet published. This implies that retrospective voting relies heavily upon the consumer’s perception of the economy. In fact, Erikson decides conclusively that the Index of Consumer Sentiment (ICS) is the most important factor in determining positive retrospective evaluations(Erikson et al. 1992, 597). Third, incumbents of congress in the same party as the incumbent president are particularly affected by the economic situation(Eulau and Lewis-Beck 1985, 208-10). At this point, there is no way to determine which economic statistics will affect election outcomes to a

greater extent. Although there are several studies citing many different variables, none are conclusive(Eulau and Lewis-Beck 1985, 212).

David Lanoue, in his studies of the Presidential and Congressional elections of the 80's found that prospective voting tends to be relatively nonexistent(Lanoue 1994, 197). He found that it has been a slight factor in Presidential elections, but virtually absent in congressional elections. On the contrary, retrospective voting played a large role in both Congressional and Presidential elections(Lanoue 1994, 198). Although, the study acknowledges that retrospective voting is a non-issue for those who do not attribute economic hardship, personal or national, to governmental officials(Lanoue 1994, 204).

One study looks to the Presidential performance evaluation, tabulated by University of Michigan studies and Gallup polls, when looking at retrospective evaluations(Norpoth 1996, 776). This study argues that there is a direct correlation between retrospective voting analysis and the Presidential popularity rating. Norpoth argues that there are a few basic components which make up a president's popularity: the state of the economy, scandals, international affairs, which may include the "rally around the flag" theory, and the domestic situation. In no way does this include expectations of future successful performance(Norpoth 1996, 782). Voters, in fact, decide based on the current conditions whether or not an incumbent is doing his or her job well, and will vote accordingly.

Some refute this claim, citing the fact that there is not necessarily a correlation between a president's popularity and future votes. To illustrate the point, many democrats may feel that a Republican president has done a good job, but that a Democrat may do a better job. An election, they argue, is much more than a determination of presidential approval. The Presidential

approval rating relies on short term factors, whereas elections typically are the result of long term factors(Miller and Shanks 1996, 404). The decision to vote for a candidate rest upon matters of party ID, and many other such factors. Thus, the Presidential popularity rating will not directly lead to votes for the incumbent.

However, many argue for the retrospective method based on other reasons as well. First, expectations granted to people voting prospectively are much higher than for prospective evaluations. A person may know if the overall economic situation is not good, allowing him or her to vote retrospectively. However, in order to vote prospectively, a person must pay close attention to the news, and be knowledgeable of economic theories and how various policies would affect their unique situation. Although, certainly many people are capable of this, it is argued that most simply do not pay attention to the news. Second, it is much easier for a person to respond to his or her fears of the economy sinking further into decline under a continuance of the same administration(Norpoth 1996, 778). Third, the best way to make a prospective evaluation is to look at history, thereby making a retrospective evaluation(Norpoth 1996, 785).

Erikson points out that “Clearly, Americans are both Peasants and Bankers”(Erikson et al. 1992, 597). There is substantial statistical evidence for both retrospective and prospective voting. Proponents of one unanimously agree that other theories have validity. Lockerbie acknowledges the importance of the past in former expectations(Lockerbie 1991, 247), and Lanoue knows that prospective analysis can often play an important role in the election(Lanoue 1994, 204). In looking at both contentions objectively, there seem to be problems with both theories. The prospective view seems to overweight prospective evaluations. The prospective evaluation is heavily dependent upon political issues, such as the prospects for war, and past

performance of the incumbent (Lockerbie 1991, 243). Yet, the retrospectivists certainly take a pessimistic approach to the level of intelligence of the American people. Also, both approaches fail to account for the extent to which other factors, such as party ID, affect their particular analysis.

In general, the weight placed on either of these theories will vary based on the strength of the incumbent. In the 1990's, this seems to correspond to the general knowledge. In 1992 Clinton faced a weak incumbent with a poor economic record. Miller and Shanks point out that retrospective voting was key to the Clinton victory (Miller and Shanks 1996, 394). The American people, upset by the poor economic situation, did not trust him to run the economy for another four years. However, in 1996, Clinton was a strong incumbent by having a good economic record behind him. The public cared more about their future success than their present economic condition, since on the whole, these present conditions did not evoke a great deal of concern. Yet, in each of these cases, the retrospective and prospective voting are closely intertwined. In 1992, although voting was said to be retrospective, the public undoubtedly feared another four years of a poor economy. Similarly, in 1996, the people made a positive prospective evaluation due to a the good economic record of Clinton. The fact that prospective and retrospective voting are so meshed makes it extremely difficult to cite one as the definitive cause for economic voting.

4. Sociotropic v. Pocketbook Voting

Still in question is the matter of what people are looking for when they look either forward or backward when looking to vote accordingly. There are two methods by which people

are said to make evaluations. The first is called sociotropic voting. This occurs when a person evaluates the economy as a whole, and will look at such things as the growth rate of GDP and unemployment and inflation. The second method is called pocketbook voting. This takes place when a person votes as a result of personal financial difficulty, such as getting behind on a mortgage, or getting laid off, but it can also include future expectations of prosperity.

Conventional studies have shown that sociotropic voting is much more common than pocketbook voting. In general, there is a greater tendency to vote according to the aggregate level of the economy than for one's own economic situation (Miller and Shanks 1996, 381). Furthermore, pocketbook concerns are far less significant a factor in elections. This is an extremely philanthropic view of Americans. The tendency of sociotropic voting is surprising, and has far reaching effects on public policy (Kramer 1983, 97).

But, there are problems with these studies. First, those studies that only study aggregate data cannot differentiate between sociotropic and pocketbook voting (Markus 1988, 138). Second, those studies that do analyze individual effects are cross-sectional in nature, they do not evaluate anything long-term. Also, the figures separating sociotropic and pocketbook voting are "hopelessly contaminated" by problems with methodology (Kramer 1983, 93). Further, it is extremely difficult to separate pocketbook and sociotropic voting, since personal finances are usually closely tied to the national economy. Kramer suggests that in order to solve this problem, testing should be done where sociotropic and pocketbook issues diverge. He says that testing for isolationism in a town divided along the issue of international trade as one possible solution (Kramer 1983, 106). Third, sociotropic voting seems always to depend on the public's perception

of the economy, which at election time is not based on up to date data, is influenced by the media's coverage of the economy, and personal situations.

Fourth, there is the thought that a sociotropic vote may be selfishly motivated. A person feels that if society is better off, he or she is also better off. Voters tend not directly attribute personal financial woes to the government. Rather, they attribute the overall performance of the economy to the government officials. However, personal finances are seen as coming out of the aggregate economic situation(Eulau and Lewis-Beck 1985, 220). Keiwit claims that:

“...in most people's minds national economic conditions reflect upon the performance and policies of the incumbent administration much more directly than the conditions of their own lives...What national economic assessments lack in personal relevance, they make up for by being for more obvious political relevance”(Eulau and Lewis-Beck 1985, 222).

This, in a sense, changes all sociotropic voting to pocketbook voting(Markus 1988, 139).

Despite the emphasis placed upon sociotropic voting, Miller and Shanks acknowledge some pocketbook effects. Pocketbook voting in the *New American Voter* particularly is a concern when a person's family experiences a layoff(Miller and Shanks 1996, 381). One theory is that in having a layoff in one's family, a person is affected by long term factors that are not an issue with merely sociotropic concerns. However, it seems that like other studies, Miller and Shanks underestimated the effects of pocketbook voting relative to other studies. A study done by David Romero and Stephen Stambough shows a large impact of pocketbook voting, particularly under independents. The difference in the unique contribution to the overall vote for pocketbook issues usually just misses statistical significance. They found much stronger results for pocketbook voting when pooling together election results(Romero and Stambough 1996, 608). They also cite evidence showing that pocketbook concerns often supersede sociotropic concerns (Romero and Stambough 1996, 613). A study by David Lanoue shows that pocketbook

voting does, in fact, matter a great deal. In fact, in the 1984 election, he shows the effect of pocketbook voting to be larger than that of sociotropic voting, although the difference is statistically insignificant(Lanoue 1994, 198).

In summation, it is very difficult to separate the effects of sociotropic and pocketbook concerns. In general, the two go hand in hand. Although there is strong evidence for sociotropic voting, it is inaccurate to say that people vote in a sociotropic manner despite pocketbook concerns. Rarely will improving the economy's overall position hurt a person. Additionally, when voting for a candidate, people do not think of the candidate's election in terms of the personal benefits they will receive(Kramer 1983, 106). The public is very much concerned with its own personal situation, but believes that the only way this happens is through the overall societal improvement. Thus, pocketbook voting occurs, in the sense that people vote according to what will help their overall situation. Strict pocketbook voting, where a person votes for his or her own well being contrary to the well being of the country, rarely even has the chance to occur.

5. Conclusion

A review of the evidence shows that economic voting does occur. Although, the effects of economic voting are not as strong as, and are closely related to other factors such as party ID and policy preferences. Citizens tend to make decisions based on both a retrospective and prospective analysis of the candidates. Yet both of these evaluations are dependent upon one another. As seen with Bill Clinton's two victories, retrospective and prospective voting are

closely intertwined. And finally, people vote according to what will help the nation's overall economic situation, but with the hopes that this will improve their personal finances. Rarely is it that a person votes in order to place national welfare over his or her own. Thus, economic voting is present in modern United States election.