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**The Impact of Economic Conditions
on Presidential Elections**

by

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prepared for:

Dr. Frederick Williams, University Honors Director

University Honors Thesis - POLS 494 A

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The Impact of Economic Conditions on Presidential Elections

Thesis: Economic conditions of the United States significantly impact presidential elections.

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**The Impact of Economic Conditions
on Presidential Elections**

Presidential elections can be influenced by a myriad of factors: the personalities and charisma of the candidates, regional loyalties to parties, ideological considerations of the electorate, party platforms, candidate debates, the dominance and influence of the media, partisanship, incumbency and more. In 1960, Angus Campbell and his colleagues added yet another presidential election factor to the list, they labeled that factor, "nature of the times".¹

Prior to The American Voter, scholars studied and debated the issue of economic factors impacting presidential elections, as well as congressional elections. Today studies and debates continue as new theories are born, tested, and analyzed yielding additional bodies of knowledge and subsequent new perspectives on the impact of economic factors on presidential elections, as well as the impact of the economy on other facets of presidential politics, such as

¹Campbell, Angus, Philip Converse, Warren Miller, and Donald Stokes. 1960. The American Voter. New York: Wiley.

popularity, incumbency, and campaigns.

In order to explore the significance of economic conditions upon presidential elections, this paper will present a brief survey of pertinent theories, analyze and discuss the short-term and long-term economic factors on presidential elections, and illustrate a new perspective of partisanship, as a resultant factor of the economy, while analyzing incumbency and presidential campaigns, perhaps from a new perspective.

Survey of Economic Theories

The seminal study asserting that economic conditions impact presidential elections was conducted by Gerald Kramer. His study appeared in the American Political Science Review in 1971. Considering changes in real per capita personal income as a measure of economic change, he asserted that economic changes significantly influence presidential elections. Kramer further asserted that real personal income was the most important economic variable in determining the influence of the economy on presidential elections and that changes in unemployment and the rate of inflation were not

decisive economic factors in presidential elections.² Critics of the Kramer study suggest that Kramer made some assumptions about the politics of presidential elections that were not well-founded or that directly led to the conclusion he sought, regardless of the economic changes he analyzed. Critics assert that Kramer erroneously accepted two notions of Anthony Downs' theory; voting is retrospective, and voting is party-oriented.³ Although criticized by some scholars in terms of methodology, Kramer's pioneering study in 1971 launched a renewed interest in the issue of economic determinants in presidential elections.

Studies conducted by Bloom and Price in 1975 asserted that voters respond to negative changes in the economy but not to positive changes in the economy, further asserting that the effect of income fluctuations on the vote would be greater in elections preceded by declining real income.⁴ More

²Kramer, Gerald H. 1971. "Short-Term Fluctuations in U.S. Voting Behavior, 1896-1964." American Political Science Review. 65: 131-43.

³Radcliff, Benjamin. 1988. "Solving a Puzzle: Aggregate Analysis and Economic Voting Revisited." The Journal of Politics. 50: 440-55.

⁴Kiewiet, Roderick, and Douglas Rivers. 1985. "A Retrospective on Retrospective Voting." Economic Conditions and Electoral Outcomes. ed. Michael Lewis-Beck and Heinz Eulau. New York: Agathon.

specifically, John Mueller examined downturns or economic slumps in the American economy as a variable capable of influencing presidential popularity and subsequent voter behavior directed toward incumbent presidents. In his 1970 study Mueller utilized two economic indicators to determine slumps in the economy: changes in monthly unemployment rates and changes in inflation, in six-month intervals. He asserted that an overall positive correlation of .39 existed between changes in the monthly unemployment rate and presidential popularity and approval. However, Mueller concluded that as an indicator of economic conditions, inflation appeared to be considerably more critical to presidential popularity and subsequent positive voter behavior than changes in the national unemployment rate.⁵

Edward Tufte published a study in 1978 that demonstrated a remarkable relationship between economic conditions and presidential elections. Tufte suggested a correlation (.64) existed between the election year growth in per-capita disposable income (as annual change) and the incumbent

⁵Mueller, John E. 1970. "Presidential Popularity from Truman to Johnson." American Political Science Review. 64: 18-34.

president's electoral vote.⁶ Specifically, Tufte asserted that each percentage point increase in annual per capita disposable income correlated to an additional two percentage point increase to the incumbent president's vote at election time, which supported the earlier study of Kramer, but was not based on Downsian assumptions.⁷

Noted political scholar, Morris Fiorina, reaffirmed in 1978, Anthony Downs' belief of retrospective voting behavior, although he utilized a microlevel approach as opposed to Downs' macrolevel approach. Fiorina utilized data made available from the Inter-University Consortium and election survey data collected by the University of Michigan Survey Research Center and concluded that a voter's economic condition does indeed affect his/her presidential vote. Fiorina concluded that citizens vote for or against the incumbent president as a function of their personal economic condition.⁸ Political scholars, Kiewiet and Rivers again

⁶Tufte, Edward R. 1978. Political Control of the Economy. Princeton: Princeton University Press.

⁷Erikson, Robert S. 1989. "Economic Conditions and the Congressional Vote." American Journal of Political Science. 34: 373-99.

⁸Fiorina, Morris P. 1978. "Economic Retrospective Voting in American National Elections: A Micro-Analysis." American Journal of Political Science. 22: 427-43.

reaffirmed the retrospective voter position in 1984 concluding that voters give more support to incumbent presidents when the election is preceded by a period of prosperity than when the election is preceded by poor economic times.⁹

In general, scholars have accepted the notion that the condition of the economy does play a factor in presidential elections¹⁰, although disagreement persists as to the level of influence of the economic conditions, as well as the specific nature of the causality. For instance, Kinder and Kiewiet proposed in 1981 that perceived national economic conditions (macroeconomic) do indeed affect voting decisions for president while personal economic conditions (microeconomic) do not. In the same year, Jacobson and Kernell asserted that the strategic choices of presidential candidates concerning the decision to run, in light of the macroeconomic conditions of the country, constituted the correlation between the economy and presidential elections, thus disputing the

⁹Kiewiet, Roderick and Rivers, Douglas. 1984. "A Retrospective on Retrospective Voting." Political Behavior. 6: 369-93.

¹⁰Markus, Gregory B. 1988. "The Impact of Personal and National Economic Conditions on the Presidential Vote: A Pooled Cross-Sectional Analysis." American Journal of Political Science 32: 137-54.

theories that the state of the economy directly affects voters' decisions.¹¹ George Stigler insisted in 1973 that the notions of the retrospective voter and economic conditions affecting national elections were "silly". He posited that the two dominant political parties do not really differ on economic policy and that fluctuations in economic conditions could very well lie beyond the control of the government or possibly that such fluctuations were the results of honest mistakes.¹²

Robert Erikson recently revisited the central question proposed earlier by the Kramer study (economic changes influencing presidential elections) using current data and more statistically refined measures of per capita income change. Erikson's 1990 study yielded a higher correlation value between economic conditions and presidential election results than Tufte calculated earlier (.80 as compared to .64). Erikson asserted that the state of the economy was undoubtedly a major determinant in presidential election

¹¹Chappel, Henry and Motoshi Suzuki. 1993. "Aggregate Vote Functions for the U.S. Presidency, Senate, and House." Journal of Politics. 55:207-17.

¹²Stigler, George. 1973. "General Economic Conditions and National Elections." American Economic Review. 63: 160-67.

outcomes.¹³

Reviewing the historical development of theories suggesting that the economy impacts presidential elections leads one to conclude that economic conditions do indeed affect presidential elections. The degree of significance that the economy has upon presidential elections remains unanswered, yet continues to pique scholarly interest and curiosity.

A Unique Short-Term, Long-Term Theory

Allan Lichtman and Ken DeCell recently published a theory of predicting presidential elections that contradicts conventional presidential election thought, yet is extraordinarily accurate. Lichtman and DeCell suggest that presidential elections are not contests at all, that they are referenda on the performance, and to some extent, the luck, of the incumbent president during his term of office. The Lichtman and DeCell theory is predominantly based upon short-term and long-term economic factors of the economy, while

¹³Erikson, Robert S. 1990. "Economic Conditions and the Presidential Vote." American Political Science Review 83: 567-73.

also embodying incumbent performance factors to form a "thirteen key" prediction system of the incumbent president's likelihood for re-election. The following table summarizes the Thirteen Keys Theory.

The Thirteen Keys Presidential Prediction Theory

The Keys to predicting presidential elections outcomes are stated as conditions that favor re-election of the incumbent president. When five or fewer conditions are false, the incumbent president wins re-election. When six or more conditions are false, the challenging candidate wins.

- Key 1 After the midterm congressional elections, the incumbent president's party holds more seats in the U.S. House than it did after the previous midterm elections (Party Mandate).

- Key 2 There is not a serious challenge for the incumbent-party nomination (Serious Nomination Challenger).

- Key 3 The sitting president is the incumbent-party candidate (Incumbency).

- Key 4 There is not a credible third-party campaign (Third Party).

- Key 5 The American economy is not in recession during the election campaign cycle (Short-

term economy).

- Key 6 Real per capita economic growth during the incumbent president's term equals or exceeds the real per capita economic growth during the previous two presidential terms (Long-term economy).
- Key 7 The incumbent president's administration effects major national policy changes (Policy change).
- Key 8 There is no sustained social unrest during the incumbent president's term (Social unrest).
- Key 9 The incumbent president's administration is untainted by major scandal (Scandal).
- Key 10 The incumbent president's administration suffers no major failure in foreign affairs or militarily (Foreign/Military failure).
- Key 11 The incumbent president's administration achieves a major foreign affairs or military success (Foreign/Military success).
- Key 12 The incumbent president or incumbent-party candidate is charismatic or a national hero (Incumbent charisma).
- Key 13 The presidential challenger is not charismatic or a national hero (Challenger charisma).

The Thirteen Keys Theory has not only anticipated the outcomes of all thirty-three presidential elections since 1860, without error, but also predicted the winning party in the presidential elections of 1984 and 1988, and did so two years in advance! Of all of the thirteen Keys, only one, the short-term economic key, has a near-perfect prediction rate.

The general rule of thumb concerning the short-term economic Key in Lichtman and DeCell's theory is that a good economy helps an incumbent president and a bad economy hurts an incumbent president. Partially based on the fact that no incumbent president has ever been re-elected in an election year in which the economy was in recession during the fall campaign, Lichtman and DeCell assert that the electorate's short-term assessment of the economic performance is not overall growth during the election year, as Tufte earlier proposed¹⁴, but rather the last major perceived swing in the economy, more specifically, perceived positive or negative growth in real Gross National Product as of the end of the third fiscal quarter immediately preceding the presidential election. According to Lichtman and DeCell, the timing of

¹⁴Tufte, Edward R. 1978. Political Control of the Economy. Princeton: Princeton University Press.

short-term swings in the economy appear to take precedence over the magnitude of any election year growth. Furthermore, a downward economic swing in the economy does not necessarily have to meet the technical definition of recession - two consecutive quarters of negative growth - to be a significant factor in the presidential election, because public opinion and statistical data will indicate an existing upward or downward trend in real economic growth. Lichtman and DeCell were so confident of their theory and its short-term economic prediction rate, that they published an article in the May 8, 1988 issue of The Washingtonian magazine, while Michael Dukakis was twelve points ahead in the polls and climbing, stating, "Barring a suddenly stalled economy and a major disaster between now and Election Day, George Bush is a shoo-in for the presidency, no matter who winds up as the Democratic nominee."¹⁵ Asserting that the election-time economy is a reflection of both the national well-being and mood of the country, Lichtman and DeCell suggest that there is little that the challenging presidential candidate can do to affect the outcome of the election and that the electoral

¹⁵Lichtman, Allan and Ken DeCell. 1990. The 13 Keys to the Presidency. Lantham, MD: Madison Books.

fate of the incumbent president rests largely in his own hands.

The Thirteen Keys Theory proposed by Lichtman and DeCell also suggests a significant long-term economic factor to presidential elections. The theory clearly states that there is a significant correlation between long-term economic trends and the voters' evaluation of the incumbent president performance. The long-term economic factor is measured in terms of annual change in economic growth, specifically expressed in annual real per-capita Gross National Product. Lichtman and DeCell assert that real annual per-capita economic growth during the four years or term, as may be applicable, must equal or exceed the mean economic growth during the previous two terms for an incumbent president to possess the critical advantage of the long-term economic factor. The current term economic growth (positive change in real per-capita GNP) is measured only through the second fiscal quarter of the election year, which is the last quarter for which such statistics are available. A basic tenet of the Thirteen Keys Theory is that presidential elections are referenda on the incumbent president's performance and a slow growth or no growth economy that has

persisted for at least two years usually seals the loss of the presidency (74% of the time), according to Lichtman and DeCell.

Rather boldly, Lichtman and DeCell state, "The only issues that matter are the ones for which the results are already in." They further suggest that debates, television appearances, fund raising, advertising, news coverage, and campaign strategies count for virtually nothing on Election Day!¹⁶ I hypothesized that economic conditions were indeed significant factors in presidential elections, but to discover this unrelenting assertion that economic conditions solely drive presidential elections, piqued an interest and curiosity. I began searching for other economic-based determinants to presidential elections in other fields of presidential elections. My hypothesis of economic conditions impacting presidential elections significantly, would need more evidence, more support.

¹⁶Lichtman, Allan and Ken DeCell. 1990. The 13 Keys to the Presidency. Lantham, MD: Madison Books.

Party Identification

Many political scholars consider party identification the key concept in electoral research.¹⁷ The standard view of partisanship, traced back to The American Voter, is that party identification is a stable psychological attachment to one's favored political party.¹⁸ In fact, changes in partisanship were thought to be uncommon. Panel studies revealed that no more than 4% of the entire electorate changed their partisanship affiliation over a four-year period. According to conventional party identification thought, party identification affected the voters' candidate evaluations, issue positions, and of course their vote -- but not be affected by them.¹⁹ Voters, it appeared, did not change their party identification or party preferences except as a result of major party realignment or the result of experiencing major changes in demographic attributes.

¹⁷MacKuen, Michael B., Robert S. Erikson, and James A. Stimson. 1989. "Macropartisanship." American Political Science Review. 83: 1125-1142.

¹⁸Campbell, Angus, Philip Converse, Warren Miller, and Donald Stokes. 1960. The American Voter. New York: Wiley.

¹⁹Flanigan, William and Nancy Zingale. 1991. Political Behavior of the American Electorate. Washington, D.C.: Congressional Quarterly Press.

However, over the last decade or so, the once conventional notion of stable partisanship has experienced some revisionary critiques and revised thoughts. A revised view of partisanship is based upon a growing awareness among political scholars that party identification is not nearly as stable as earlier thought and thus somewhat responsive to some forms of short-term forces.²⁰ Partisanship, would need to be affected considerably, during the presidential election cycle if indeed the economic conditions of the nation were to significantly impact presidential elections.

Macropartisanship

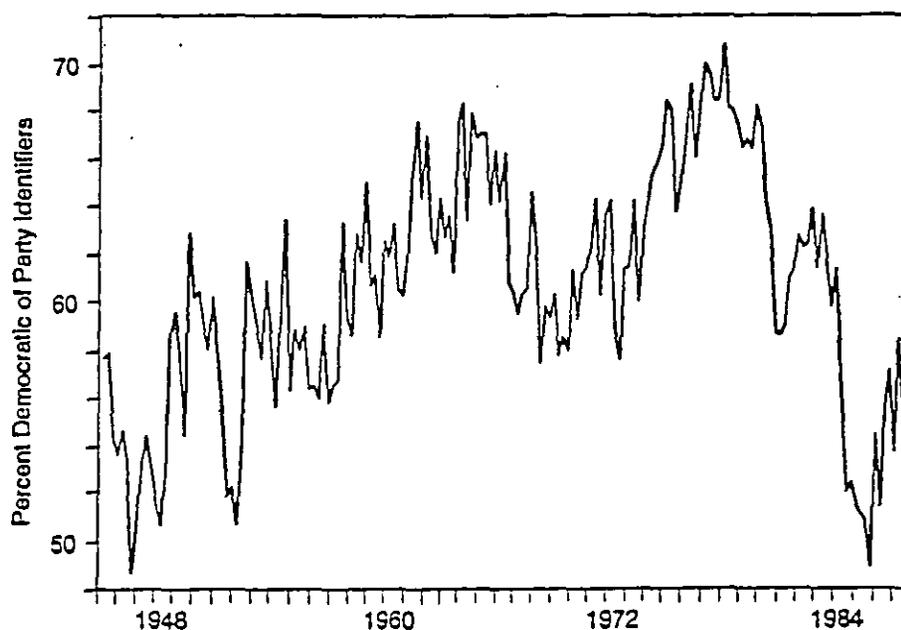
Michael MacKuen, Robert Erikson and James Stimson asserted in a 1989 study that a possible reason for the perceived stability of partisanship is the manner in which it is analyzed by fellow political scholars. Normally the frequency distribution of partisanship is presented as a time series with two- or four-year intervals between readings of partisan distribution. MacKuen and his colleagues proposed a finer

²⁰Erikson, Robert S. 1990. Economic Conditions and the Congressional Vote: A Review of the Macrolevel Evidence." American Journal of Political Science. 34: 373-99.

time scale, since they firmly believed that partisanship could be treated as a continuous macro phenomenon measured through short intervals of time.

A compilation of Gallup partisan data (Democratic party identifiers) from 1945-1988 graphed in quarterly intervals yields the graph in Figure 1 below.

Figure 1. Macropartisanship, 1945-88



MacKuen and his associates asserted that partisanship is not as stable as The American Voter model led us to earlier believe. Thus macropartisanship- the aggregate of partisanship- experiences dynamic movements, both in

magnitude and duration.²¹

MacKuen and his colleagues continued their study searching for possible causalities of the dynamic macropartisan movements they discovered. They based the subsequent phase of their study on theoretical models proposed by Morris Fiorina.²² He asserted that voters use partisanship as a shorthand device in order to understand the political world around them. Furthermore, Fiorina suggested that voters continually evaluate the political world around them, whether consciously or subconsciously, and adjust their views of the political parties accordingly.²³ Yet, Fiorina also suggested that voters behave retrospectively in their inherent economic and electoral evaluations of the incumbent president.²⁴ MacKuen, Erikson, and Stimson, proponents of the theory of economic impact on presidential elections, proposed that the

²¹MacKuen, Michael B., Robert S. Erikson, and James A. Stimson. 1989. "Macropartisanship." American Political Science Review. 83: 1125-1142.

²²MacKuen, Michael B., Robert S. Erikson, and James A. Stimson. 1989. "Macropartisanship." American Political Science Review. 83: 1125-1142.

²³Fiorina, Morris P. 1974. Representatives, Roll Calls, and Constituencies. Lexington, Mass.: Heath.

²⁴Fiorina, Morris P. 1978. "Economic Retrospective Voting in American National Elections: A Micro-Analysis." American Journal of Political Science. 22: 426-63.

incumbent president's economic-based performance and public approval could be critical factors in the dynamic component of macropartisanship.

MacKuen and his colleagues used the composite Index of Consumer Sentiment (ICS) as a measure of voters' economic evaluations of the incumbent president's economic-based performance²⁵. The ICS is considered a clean measure of the state of the economy as perceived by voters, respected by fellow scholars, and known to be responsive to the national economy.²⁶ The Index of Consumer Sentiment has been measured as part of the Survey of Consumer Finances and Survey of Consumer Attitudes and Behavior by the University of Michigan's Survey Research Center since 1953. The ICS survey consists of six questions relating to the public's general perception of the nation's economic health:

1. Current Family Finances
2. Current Business Conditions
3. Current Buying Conditions
4. Next Year Family Finances

²⁵MacKuen, Michael B., Robert S. Erikson, and James A. Stimson. 1989. "Macropartisanship." American Political Science Review. 83: 1125-1142.

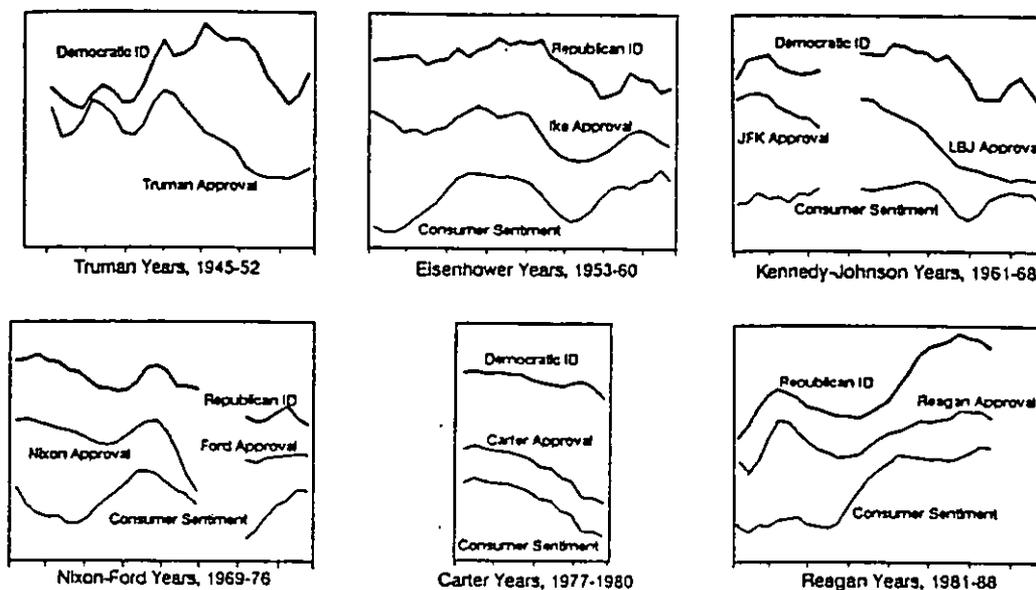
²⁶Katona, George. 1964. The Mass Consumption Society. New York: McGraw-Hill.

5. Short-term Business Expectations
6. Long-term Business Expectations²⁷

MacKuen, Erikson, and Stimson discovered a remarkable relationship between this measure of the health of the economy and the incumbent president's approval rating, as well as the dynamic movement of macropartisanship. When macropartisanship, presidential approval, and consumer sentiment (ICS) were graphed simultaneously in multiquarter, multiyear systematic movements (short time intervals, as used in the earlier portion of the study), it appeared that consumer sentiment exerted a direct effect on presidential approval, which exerted a direct effect on macropartisanship movement. See Figure 2 on the following page. It was clear that both presidential approval and partisanship were related to the economic sentiment of the voters, although not every upturn or downturn was immediately mimicked in partisanship movement. The relationship between consumer sentiment, presidential approval, and partisanship is clearly evident.

²⁷MacKuen, Michael B., Robert S. Erikson, and James A. Stimson. "Peasants or Bankers? The American Electorate and the U.S. Economy." American Political Science Review. 86: 597-611.

Figure 2. Macropartisanship, Presidential Approval, and Consumer Sentiment: Truman to Reagan



MacKuen, Erikson, and Stimson strongly assert that both presidential approval and macropartisanship move or change systematically as a direct result of changing economic perceptions of the electorate. Additionally, they concluded that economic conditions of the country, as expressed in economic sentiment, was a causal factor helping to account for macropartisanship's dynamic movement. MacKuen and fellow researchers demonstrated to the political community that partisanship does have a dynamic component, it indeed was not

as stable as previously believed. MacKuen and his colleagues further established that the economic conditions of the nation were significant factors in presidential approval ratings and in macropartisanship levels. As a result, they established that economic conditions of the nation were indeed significant factors in presidential elections.²⁸

Assessment of Economic Impacts

Assessing whether economic conditions do indeed significantly impact presidential elections, briefly summarizing the evidence in favor of the hypothesis is both appropriate and necessary. The dominant relevant theories proposed by political scholars such as Gerald Kramer, Anthony Downs, Edward Tufte, and Morris Fiorina have concluded that economic conditions certainly affect presidential elections. Whether microeconomic or macroeconomic factors are evaluated and tested, political scholars generally reaffirm the

²⁸MacKuen, Michael B., Robert S. Erikson, and James A. Stimson. 1989. "Macropartisanship." American Political Science Review. 83:1125-1142.

commonly accepted maxim of American politics that voters will reward an incumbent president if national economic conditions are favorable and punish him if the economic conditions are unfavorable.²⁹

Allan Lichtman and Ken DeCell have suggested that presidential elections can be predicted accurately by noting short-term and long-term economic factors, concluding that certain economic factors of the economy impact presidential elections well into the future, and interestingly enough, regardless of some of the political factors that many consider prominent in the presidential elections. Although the Thirteen Keys Prediction Theory entails extra-economic components, the most accurate Key is the short-term component with a near perfect prediction rate.

Yet, other political scholars, such as Michael MacKuen, Robert Erikson, and James Stimson have revealed newly discovered causal relationships between the nation's economic conditions and partisanship fluctuations and presidential approval ratings, consequently impacting presidential elections by altering electoral coalitions and majorities.

²⁹Wides, Jeffrey W. 1976. "Self-Perceived Economic Changes and Political Orientations." American Politics Quarterly. 4: 395-411.

Furthermore, MacKuen and his fellow colleagues, after taking a closer look at macropartisanship dynamics, strongly assert that economic conditions of the nation, as measured by the Index of Consumer Sentiment, directly affect not only presidential approval, but also the number of Democratic and Republican Party identifiers among us in the electorate, at any given time.

In sum, I am convinced that economic conditions of the nation do indeed impact presidential elections, significantly. However, the state of the economy itself, should not be considered as the sole domineering determinant in affecting the presidential election outcome. Our national economy intrinsically has a pervasive nature -- it simply affects everyone, to some degree, in nearly every aspect of their life, and as such, it must be individually perceived, interpreted, and reacted to or acted upon. But to neglect the many other important factors and variables of presidential elections would be foolish avoidance of the dynamics and splendor of the greatest democracy in the world.

Ray W. Hager.