Pocketbook Predictions for Presidential Elections

Cover Story

Pocketbook Predictions for Presidential Elections

by Patrick L. Anderson
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(Note: In addition to their work on public policy issues, economist Patrick L. Anderson and his fellow economists at Anderson Economic Group LLC prepare a nationally recognized analysis of economic conditions and presidential elections. Their "Pocketbook Prediction" model was first presented in the spring of 2004 at Grand Valley State University's Hauenstein Center for Presidential Studies and later won the Edward A. Mennis award from the National Association of Business Economists. Anderson prepared this exclusive preview for Dome on the 2012 election in the U.S. and in Michigan, in advance of his presentation at the Hauenstein Center on February 7, 2012.)

Political leaders since the ancient Romans have understood that the clearest way to maintain the favor of voters is to enhance their economic well-being. The manner of describing this has changed over time; Bill Clinton's campaign mantra of "It's the economy, Stupid" was an irreverent updating of the ancient Roman demand for "more bread and better circuses!" The fundamental principle remains the same.

However timeless the principle, it is frequently called into question by the advice, chattering and occasional analysis of the barrage of pundits, personalities, and talk-show experts who visit us every election year. Nearly every Dome reader can identify a dozen or more purely political factors that earnest practitioners of politics believe are vital to either the re-election of the president or the election of a challenger. Such factors could include enlightening the public; angering them; cutting through the clutter; muddying the waters; connecting with the Tea Party; assailing media bias; and, of course, raising money along with condemning the role *of money in politics.*

Economists over the past few decades have conjectured that economic conditions trump all these factors. Others have scoffed at such claims of “economic determinism,” and note that voters’ own statements suggest that the most important issues facing the country change over time. Furthermore, there is no denying the national fascination with polling data in the weeks and months before an election.

Back in 2004, my colleague Ilhan Geckil and I decided to take an honest look at just how important economic issues have been to American voters in the past. As an acid test of our analysis, we publicly announced our finding months before the 2004 election. We’re doing the same thing again in 2012, this time with two more elections under our belt.

The results, even nearly a year before the general election date and well before we know the nominee from the challenging political party, are quite revealing — both about the American voter and the likely outcome of the upcoming election.

Pocketbook Issues
“Pocketbook” issues describe the impression voters have when considering their family budget and the national economy. We assembled state-level data from 1980-2008 in addition to national data from as far back as 1916 on economic and institutional variables. With these data we tried to construct a model of a rational voter who rewards the incumbent party if his or her economic well-being was enhanced by voting for the incumbent party in presidential elections.

We focused on the popular vote, which each voter can directly affect, rather than the electoral college. Although the United States actually elects its president in the Electoral College, there is no question that political strategy played a major role in gathering electoral votes since the adoption of the U.S. Constitution. Indeed, it was only a dozen years ago that the United States elected a president who did not win a majority of the popular vote.

In particular, we looked at five categories of economic and institutional data, each of which we expect will affect voter behavior:

1. ***Income Growth.*** *Income is a pure “pocketbook” indicator; more income typically means more votes for the incumbent.*
2. ***Employment.*** *Growing unemployment unnerves voters; fewer jobs typically mean fewer votes.*
3. ***Inflation.*** *High inflation (or deflation) hurts voters.*
4. ***War.*** *Voters rally around the commander-in-chief in a full-scale war, but they have a different view of limited wars.*
5. ***Third-Party Candidates.*** *Major third-party candidates, even though they rarely win major states, can affect the popular vote for the major party candidates.*

It is important to note what the model doesn’t include:

- *Any polling data*
- *Any sentiment data (such as “approval ratings” and expectations about the future)*
- *Partisan identification*
- *Union affiliation*
- *Campaign expenditures*
- *Media bias*
- *“Hanging chads”*
- *SuperPACs*
- *Debate performance*
- *Charisma of the candidates*

- *Weather on Election Day*
- *Campaign strategy*
- *Cleverness of campaign advertising.*

Further, we excluded policy positions, ideology, and experience. Of course, we not only believe these things (especially the latter ones) do matter to voters, we think they should matter to voters! Thus, the "pocketbook" model isolates, on purpose, economic conditions from all the other factors. If such a model explains the outcome of elections well, it means that voters really do vote their pocketbook.

Track Record
Looking at U.S. presidential elections from 1916 to 2008, we learned some interesting things both about U.S. voters and their interest in "pocketbook issues":

- *Elections became far more competitive after the 1950s. Indeed, the statistical variance in the difference between the winning and second-place candidate was about 50 percent higher for elections of 1916 through 1960 than for those from 1960 through 2008. Lopsided results were common in the first half of the century, but relatively few true landslide elections (where the difference in popular vote between the major parties was more than 10 percent) have occurred since then.*
- *Voters after 1960 became more predictably focused on economic conditions. The differences between the predictions from a pocketbook model and the actual voting results became much smaller in the last 52 years.*
- *Taking the 24 elections from 1916 to 2008 as a group, a pure pocketbook model explains about 75 percent of the popular vote differential between the incumbent party and the challenging major party.*
- *The "standard error" of the model — the portion of the vote margin that appears to be completely unexplained — is around five percentage points, depending on the specific time period and specification of the model. Although the comparison is not exact, that level of uncertainty is not very different from the error in large-sample public opinion polls taken in the months before an election. For example, the CNN "poll of polls" showed the 2008 election as a dead heat between Obama and McCain in early September 2008 — an election Obama won with over a 7 percent margin two months later. George Bush was behind John Kerry in some national polls in October 2004 — an election he won by 2.5 points less than a month later.*
- *Good (and bad) economic news in an election year seems to matter more than in the early years of a term.*
- *Voters among the states vary considerably regarding their response to pocketbook issues, and they have strong partisan leanings that are predictable over time.*

2000–2008 Elections
Our pocketbook model correctly predicted the results of the 2000, 2004 and 2008 elections to a remarkable degree.

In 2000 a slight slowdown in the economy, relatively low inflation, and peacetime suggested that the incumbent party would narrowly win the popular vote. Indeed, the pocketbook model indicated about a 4 percent margin for the Democrats, and the voters gave them the popular vote by about a 0.5 percent margin. Of course, the Republicans won the Electoral College.

In 2004 improvement in the economy and continued low inflation suggested that the incumbent should win, even though there was a limited war being fought. Both the voters and the pocketbook model gave the incumbent party the popular vote by about a 2 percent margin.

In 2008 a sharp downturn in the economy occurred late in the election year, and the limited war continued in the Middle East. The pocketbook model suggested that voters would favor the candidate from the challenging party by about 9 percentage points, and the voters gave the nod to the challenger by over 7 percentage points.

Indeed, the predictions based on a pure pocketbook model for the last three elections were *so close to the actual results that they proved at least as accurate as large-sample opinion polls taken two months before the elections! We're not promising that voters will be that predictable in the future, but they certainly have been over the past decade.*

What's Ahead for 2012?
Although we have just begun the year 2012, we can preview the pocketbook scorecard using some assumptions about the national economy and the likelihood of a third-party candidate:

- *The economy since 2008 has been the worst for any incumbent since Jimmy Carter faced the voters in 1980. Families have endured very high unemployment and sluggish income growth.*
- *Inflation is relatively low, but creeping up.*
- *No significant third-party candidate has yet emerged who would capture a significant share of votes in multiple states.*
- *Of the limited wars being fought in the Middle East, it appears that American involvement in one (Iraq) is winding down, while continuing in Afghanistan.*

Although the technical details of the forecast will be released at the February 7 Hauenstein Center event, the direction here is clear. Pocketbook voters are very unlikely to reward an incumbent party with this type of economic record with a popular vote margin.

That implies the candidate of the Republican Party is, at least on pure economic and institutional conditions, likely to capture the White House in 2012.

What Could Change
We noted above that voters tend to reward economic improvements in an election year. The national economy (as well as the economy in Michigan) is improving, and the degree of that improvement over the next 10 months will be critical. In particular, an uptick in employment that is faster than expected could give pocketbook voters a reason to reward the incumbent.

In addition, our model confirms one thing that political analysts have been saying: the entry of a significant third-party candidate could, for the pocketbook model and, more importantly, for voters, change the outcome. Similarly, "bringing the troops home" remains a potent political message to U.S. voters.

Michigan Voters
Although the national popular vote in presidential elections has become more predictable — and competitive — over time, the same cannot be said about presidential elections within the states. Our analysis of the 20 most populous states confirms the common understanding that there are "red" and "blue" states that lean heavily in one direction or the other. That doesn't mean that state voters aren't "pocketbook" voters — but it does mean that in each state they start thinking about their pocketbook from different starting points on the partisan spectrum.

Michigan is an interesting case. In recent presidential elections it has leaned so far to the Democratic side that some no longer consider it a "swing state." Our analysis shows that Michigan voters — at least in presidential elections — are still pocketbook voters. Indeed, it appears that Michigan voters track changes in the economy more closely than those in many other large states. However, a Democratic incumbent president starts with an advantage in Michigan, and the economic duress of the state chips away at that advantage.

Pundit Go Home?
One might read the track record of a pure pocketbook model and conclude that there is very little to watch over this election year — that it's all over except for the voting, so switch the channel and come back in November. That would be an incorrect conclusion, because it ignores probably the most important finding of our work: economic issues explain only about three-fourths of voter decisions.

Three-fourths is a big share — but it is not the entire pie! American voters have proven time and again, that they like to be in charge. This year will be no different.

And, for all my friends in the pundit, consultant, campaign management, and polling business, do not worry. As long as there is a democracy, there will be work for you!

Patrick L. Anderson is principal & CEO of Anderson Economic Group LLC, headquartered in East Lansing. He founded the firm 15 years ago after serving as deputy budget director for Gov. John Engler and chief of staff for Secretary of State Candice Miller.

(Author's technical note: The Anderson-Geckil "pocketbook" model is estimated using data from a variety of sources covering economic conditions and institutional factors in the U.S. from 1916 to 2008, the 20 largest-population states from 1980-2008, and predicted economic conditions for 2012. The econometric techniques used include standard linear regression as well as more advanced weighted, panel, and robust regression techniques. An extensive description of the model, including summary statistics and descriptions of the estimation techniques, is contained in the 2004 article "Pocketbook Predictions of Presidential Elections" in the journal Business Economics.

The model is intended primarily to explain the decisions of voters rather than to predict the outcome of elections. As with any other econometric model, many variables are not included due to lack of data. Further, any prediction using this, or any other econometric model, relies upon factors that cannot be known in advance. Additional econometric information will be available on the Anderson Economic Group website.)