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What's Inside This Issue

From the Editors

We would like to draw your attention to two featured items in this newsletter. First of all, as many of you know, Professor Fiona McGillivray passed away last fall. She was a wonderful person and an extraordinary scholar. We will miss her dearly. In political economy, her work was among the very best in the past fifteen years. Indeed, her book *Privileging Industry*, received the 2005 William Riker Prize for the best book in political economy. In memory of Fiona, the Political Economy Section has established a prize, which is described below.

Second, the substantive focus of this issue of *The Political Economist* is on economic voting, with particular attention to how extant models account for the recent US Presidential election. Both in comparative politics and American politics, scholars continue to develop and debate models of how economic conditions influence electoral behavior. Some of the most innovative recent work in comparative politics is due to Ray Duch and Randolph Stevenson. In this issue, Ray Duch provides an overview of this research and speculates as to what it teaches us about the recent US Presidential election. We also include an essay by Michael Lewis-Beck and Mary Stegmaier that reviews the recent election results in light of economic voting research on the US. Specifically, they examine Obama's victory as a function of objective economic conditions. They discuss how and why Obama faired worse than one might expect based on the poor US economic conditions.

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The Fiona McGillivray Prize for Emerging Scholars in Political Economy

The Political Economy Section of the American Political Science Association announces the establishment of a prize in honor of Fiona McGillivray, an extraordinary scholar and teacher who made invaluable contributions to the field of political economy before her tragic passing at the age of 40 on September 2, 2008.

The Prize will be awarded every two years to the political scientist judged to have made the most significant contribution to the field of political economy within 15 years of receiving his or her PhD, with the hope that the winner will continue to advance the field in the future. Nominations for the Prize will be solicited from members of the Section, with the final determination made by a three-person committee appointed by the Section Chair.

The section is currently soliciting donations from individuals and institutions to fund the endowment for the McGillivray Prize. Our aim is to make the first presentation of the Prize at the 2010 APSA annual meetings. Please help us to make this prize a fitting tribute to Fiona's memory.

Checks should be made out to the APSA, and on the memo line of the check donors should write, "PE Section/McGillivray Prize." Contributions are tax-deductible, and should be sent to

Political Economy Section/McGillivray Prize
c/o American Political Science Association
1527 New Hampshire Ave., NW
Washington, DC 20036-1206

Requests for further information may be addressed to David Leblang, Secretary-Treasurer of the Political Economy Section, at leblang@virginia.edu.

THE POLITICAL ECONOMIST '09

Feature Essay

Selecting Obama: The 2008 Economic Vote in Context

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Thanks to Simon Jackson, Jeff May, Philipp Rhem and Lynn Vavreck for their helpful suggestions and to Matt Gabel and Randy Calvert for their helpful suggestions and extensive edits.

1 Introduction

Most observers of the recent 2008 U.S. presidential elections agree that the economy played an important role in explaining the Democratic victory. And I demonstrate in this essay that conventional wisdom was correct—the economy improved Obama's vote probabilities by about 10 percent. A more interesting, comparative, question is whether this 10 percent is high or low, relative to other U.S. presidential elections and why the importance of the economy varies from one Presidential election to the next. The economic vote in 2008 was high compared to recent Presidential elections but there have been a number of Presidential elections in which the economy has weighed more heavily in the voter's calculations. Duch and Stevenson (2008a) propose a selection model of vote choice that I will argue here helps us understand why the voter gave such importance to the economy in her utility calculation in the 2008 Presidential election while, for example, giving little weight to this consideration in the 2000 Presidential election. This selection model suggests that the importance of the economic evaluation in the vote decision is conditioned by the voter's assessment of the candidates' economic competency. But as we point out in the book, one could easily imagine deriving explanations for this variation from other models, such as a moral hazard model, although it is not clear that the predicted contextual variations would be similar. In fact, my intuition is that a moral hazard model of the economic vote that incorporated context into the vote utility function would likely have quite distinct predictions about when the economy is more or less important in the vote choice.

This essay first briefly reviews the development of selection models of the economic vote. It then describes, again briefly, the competency model of the economic vote developed by Duch and Stevenson (2008a), followed by a description of how the economic vote is calibrated in different national contexts. Finally, I conclude the discussion by analyzing the economic vote in the recent 2008 Presidential election compared to earlier economic voting in Presidential elections and speculate as to whether the importance of the economic vote in the 2008 Presidential election can be explained by the Duch and Stevenson contextual theory of the economic vote.

2 Selection Models

Selection models of economic voting stipulate that the vote decision entails more than a simple reward-punishment response to economic outcomes. They suggest that instrumentally rational voters are motivated by the desire to select the most competent candidates---that is, voters use information about economic outcomes to assess the future competencies of competing candidates. Selection models were not unfamiliar to the early economic voting scholars. Voters in Downs' model are future oriented and compare the platforms of contending candidates, logic which more closely resembles a selection as opposed to a sanctioning model. Likewise, Kramer (1971) viewed voters as future-oriented but unwilling to spend the resources to assess future promises. Rather, again echoing Downs, Kramer assumed that rational voters rely on the retrospective

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economy to inform them about the likely actions and economic success of future incumbents. The famous Stigler (1973) critique of Kramer also adopted the selection perspective, but pointed out that voters should be uncertain about how much the previous economy should tell them about the competence of incumbents: "Per capita income falls over a year or two should the voter abandon or punish the party in power? Such a reaction seems premature: the decline may be due to developments beyond the powers or responsibilities of the party" (Stigler 1973, 164). However, Stigler also recognized that with knowledge of the role incumbents play in shaping policy, rational voters might be able to tease out of economic outcomes those fluctuations that are related to the actions of incumbents and those that are not. Consequently, they might use this information in a prospective fashion to "determine which party is on average more likely to maintain a high and steady rate of growth of income" (Stigler 1973, 165).

While this early work clearly pointed the way toward a rational model of economic voting based on the selection of competent politicians, informal models left many questions unanswered, e.g., could it be rational for voters to use the previous economy to infer competence, if politicians had incentives to manipulate the economy for electoral gain? Answers to these kinds of questions have had to await the development of the rational expectations literature in economics and its expression in the study of political business cycles.

The development of rational expectations theories provided the theoretical tools for developing formal selection models of the economic vote. Rational expectations treat forward-looking decisions in the same rational fashion as static decisions, particularly in terms of how individuals use information. This implies that individuals do not make systematic (or repeated) mistakes in forecasting the future. Their expectations about future outcomes should be conditioned on reasonable "models" of the "variables" and functional relationships that have historically generated such outcomes. Rational expectations theories essentially associate the same rationality assumptions with forecasts that are typically linked to static decision making. This implies, for example, that policymakers could have no permanent impact on economic outcomes because they would be anticipated by rational economic actors (Alesina and Cohen 1997). Building on these advances in rational expectations theory, Cukierman and Meltzer (1989) and Rogoff and Sibert (1988), independently, proposed the notion that governments differ in their competence in handling the economy and that information about their competencies plays a critical role in vote choice. By observing economic outcomes, voters become informed about the competence of an incumbent and use this information in their vote decision. Persson and Tabellini (1990) and Alesina and Rosenthal (1995) developed models that explicitly incorporated rational expectations and very nicely drew out the implications of rational expectations and competency assumptions for the economic voting model.

3 Competency and Context in Economic Voting

Because voters in such rational expectations models are fully informed about the incumbent's policies and anticipate their impact on subsequent performance, only unexpected shocks to the macro-economy can have any impact on their voting decisions. And these shocks can be either exogenous shocks---unrelated to the policy action of incumbents---or they can be competency shocks, unexpected outcomes that can be associated with incumbent initiatives.

3.1 A Competency Model of the Economic Vote

In our adaptation of this model Duch and Stevenson (2008a), voters have rational expectations regarding not only the macro-economy, but also regarding likely electoral outcomes. Accordingly, ours is a selection model in which voters act on rational expectations regarding economic outcomes and also vote strategically. Voters maximize their utility by voting for the best economic managers (ignoring strategic voting incentives). In this model, movements in the previous economy enter the voters calculation of expected utility for each party weighted by a "competency signal" that ranges from zero to one, depending on how much information about that party's competence the observed economic fluctuations actually contain. Under rational expectations, the average economic outcomes associated with different incumbent parties are fully anticipated. Consequently, economic growth only depends on the natural rate of economic growth plus unanticipated shocks. These shocks, however, consist of both an exogenous component and a component that depends on the incumbent party's competence (and is persistent over time). Consequently, rational voters can use retrospectively observed economic performance to infer the competence of incumbent politicians or parties.

Voters can observe shocks to the macro-economy but cannot observe the mix of exogenous and competence components that make up these shocks. Voters do, however, know the variances of the distributions of these different kinds of shocks and so are able to solve a well-defined signal extraction problem that produces a competence signal. This competence signal is simply a weighted value of economic performance (or perceptions of performance) where the weight varies between zero and one and is minimized when the variance in exogenous shocks is very large relative to the variance in the competence of politicians. When it is near zero, there will be little economic voting because the exogenous influences on the economy are so great that the rational voter can glean little information about the competence of politicians from its usual fluctuations. Alternatively, when an economy is insulated against

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exogenous shocks (i.e., the variance in these shocks is quite small from period to period), observed movements in the economy would be relatively informative about the competence of politicians and so important in the vote choice of rational voters.

3.2 The Effects of Context

Our competency theory predicts that as the ratio of decisions affecting macroeconomic outcomes by non-electorally accountable decision makers to those by electorally accountable decision makers declines, the overall competency signal will rise and vice versa. The competency signal will be lower in an open economy because the ratio of non-electorally accountable decisions (many originating with decision makers outside of the country) to electorally accountable decisions will be higher than in an economy less open to global influences. Both across countries and over time, then, economic voting should be lower for more open economies.

Similarly, the economic vote may be conditioned by the structure of electoral competition and by the distribution of executive authority. This generalization shows that in political contexts in which policymaking authority is widely shared, the rational voter's ability to extract an informative signal about the competence of any one party declines. This potential has certainly been recognized (e.g., Scheve (2004)), but both the theoretical and empirical implications of this kind of contextual variation have yet to be fully explored. The Duch and Stevenson (2008a) model identifies the contextual implications of the selection model. From a comparative perspective, they identify three categories of contextual variables that systematically affect the competency signal: political and economic institutions; distributions of administrative responsibility; and contention.

First, other things being equal, contexts with relatively more electorally (as opposed to non-electorally) accountable decision makers shaping economic policies have a higher overall competency signal. This is the case because the ratio of electorally to non-electorally accountable decision makers directly impacts the variance of both political (i.e., competence) and non-political (i.e., exogenous) shocks to the economy. Since only the decisions of electorally accountable decision makers can contribute to "competence" shocks, the overall size of the variance terms in the competence signal (and thus its value) is determined by the ratio of electorally accountable economic decisions to non-electorally economic decisions. Thus, the task of identifying how political and economic institution may impact economic voting (for this part of the model) reduces to connecting these institutions to voters' beliefs about the relative importance of electorally and non-electorally accountable decisions on economic performance. Consequently, political and economic institutions that impact this ratio should have a direct influence on the quality or strength of the competence signal that the economy provides to voters. For example, the theory suggests that voters in economies that are highly integrated into the global economy will recognize that economic policy making is weighted toward non-electorally accountable decision makers and so rationally conclude that exogenous factors play an important role in producing macro-economic shocks. Accordingly, we predict that economic voting will be higher in countries, like the U.S., with relatively closed economies.[1]

Second, what I labeled the responsibility augmented competency signal is maximized when responsibility is maximally concentrated in one party and minimized when responsibility is shared equally among them all. In addition, when I further generalize the model to allow for multiparty competition over the distribution of future policymaking authority, I show that not only will economic voting generally be more important when policy making responsibility is more concentrated, but also that the economic vote (whatever its overall size) will be more important to the support of specific parties when they have a larger share of policy making responsibility. The sharing of administrative responsibilities in presidential systems, such as the U.S., is usually referred to as "divided government." This occurs when different parties control the executive and legislative branches of government (Elgie 1999, Shugart and Carey 1992). There is evidence that divided government weakens the economic vote for presidential parties---much of it based on aggregate-level analyses. For example, Lewis-Beck and Nadeau (2000) produce such evidence for French presidential voting. Likewise, Powell (2000) finds that divided government reduces the magnitude of the economic vote in his sample of 23 presidential democracies. Employing a sample of elections from both mature and new democracies, Hellwig and Samuels (2007) confirm that the economic vote for the President becomes insignificant, while the PM party's economic vote becomes much larger, in periods of cohabitation (or divided government). There is convincing evidence from the U.S. that divided government either at the national or state level results in a smaller economic vote for the executive (president or governor). Leyden and Borrelli (1995) find that state unemployment impacts vote choice more strongly in states with unified as opposed to divided government. Lowry and Ferree (1998) demonstrate that the impact of a state's fiscal condition on vote choice

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1 Brender and Drazen (2008) make a similar argument, suggesting that rational voters, in exercising their economic vote, tease out the domestic versus global components of economic growth experienced in a particular country and some of their data, particular from new democracies is supportive. In contrast Leigh (2004) concludes that voters in fact fail to discount the impact of the global economy on national economic growth and hence "luck" plays an important role in the economic vote.

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(for both gubernatorial and state legislative candidates) is more pronounced after periods of unified party control of the state government. In contrast, Norpoth's analysis of individual-level data from the 1992 and 1996 U.S. national elections suggests that divided government does not "divert" the economic vote from the presidential party to the majority party in Congress (Norpoth 2001). My expectation, based on our competency model, is that the economic vote will be lower in U.S. Presidential elections conducted under divided government.

Third, Duch and Stevenson (2008a) show that economic voting should have its largest impact on those opposition parties that voters believe are most likely to replace the incumbents---because they are members of the most competitive alternative cabinets. Further, overall economic voting should be muted when the incumbent cabinet (or alternatives similar to that cabinet) is not in contention to be reselected to govern. As a result, when voters are faced with a situation in which parties are continually returned to government, election after election, economic voting will be depressed. Or in the rare event that an incumbent cabinet is certain to loose an election, economic voting will also be muted. Finally, given some level of incumbent contention, the vote of any particular incumbent party's share of the economic vote will be muted relative to its partners if it is a member of many and more competitive alternative cabinets.[2] In the U.S. Presidential elections, where there are typically only two competing candidates with a likely chance of winning, this result suggests that economic voting should be higher in very competitive elections but lower in uncompetitive elections.

Using data from 263 voter preference studies across 18 countries, Duch and Stevenson (2008a) explore in considerable detail the extent to which this contextual theory of the economic vote holds up to empirical testing. In this essay I speculate as to whether the theory helps us explain the importance of the economic vote in the 2008 U.S. Presidential election.

4 The Economic Vote in the United States

For the above theoretical reasons, we would expect the economic vote to play a substantial role in U.S. elections. In this section I investigate whether this is in fact true and whether variation in the economic vote is a function of the competency model we described above. To do so, we first describe how we calculated the economic vote for the President in a series of U.S. surveys over the three decades. We then suggest several explanations for the observed variation in the economic vote, focusing on factors that shaped the competency signal voters received about the incumbent President.

It is important to note that many of the institutional factors (e.g., system of cabinet formation) that we have shown affect the economic vote in the comparative context are irrelevant here, since we will be focusing exclusively on explaining over-time variation in the economic vote in recent U.S. presidential elections. Similarly, some important economic competency considerations (e.g., exposure to the world economy) from the cross-national analyses are also relatively invariant in the recent U.S. context. Thus, our interpretation of variation in the economic vote in recent U.S. Presidential elections will focus primarily on unexpected economic performance as the source of a competency signal.

4.1 Calculating the Economic Vote

I begin with a description of how the dependent variable is measured. The dependent variable is the estimate of the economic vote for the incumbent party Presidential candidate for 23 voter preference studies conducted during the 1979-2008 period.

For each of the 23 surveys I estimate a logit vote choice model for incumbent vote. Each survey includes a vote preference question and the respondent's retrospective evaluation of the national economy (got better, stayed the same, got worse). These are the core questions for the analysis and they are roughly similar across all 23 studies. I create dummy variables for the "got better" and the "got worse" categories, which will facilitate measuring the substantive effect of these considerations on vote choice (see below). In addition, I include control variables that capture the typical predictors of vote choice: socio-economic cleavages, policy measures, liberal-conservative self placement, and partisanship.

Based on the logit model for each survey, I simulated 1000 draws from the multivariate normal distribution, which are then used to generate predicted probabilities of incumbent support for each respondent as a function of a change in an individual's economic perceptions.

A "meaningful change" is defined as a change in opinion that results from moving each respondent's economic perception one unit in the direction of a worsening economy; it can also be defined as a unit change in the direction of an improving economy. This represents a reasonable shift in economic perceptions based on our assessment of the distribution of economic perceptions in the 23 surveys. The control variables are

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2 Although not relevant to the U.S. context, this last result is especially revealing since, while consistent with our theory, in the case of "perennial governing parties" it contradicts the clarity of responsibility argument. Perennial governing parties are always in government because they are members of all the viable governing coalitions (e.g., the Belgian, Dutch, and Italian Christian parties) and as such, our theory says they should get a smaller share of the economic vote than their partners. This, of course, is exactly opposite to what one would expect from the more standard clarity of responsibility argument found in the literature (since perennial parties—particularly large ones—should be easy targets for voters seeking to attribute responsibility).

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held constant at the values they take on for each individual in the sample. This gives estimates of the change in each party's vote probabilities associated with a unit deterioration in economic perceptions. All told this gives 23 economic votes for the incumbent party in each sample of 23 voter preference surveys.

In the analysis presented below the dependent variable is the average of the positive and negative economic votes of the incumbent party presidential vote. The positive (negative) economic vote is defined as any increase (decrease) in support for the candidate of the incumbent presidential party that is caused by worsening (improving) economic perceptions. Averaging over these two simulated effects ensures that the economic vote magnitudes are sensitive to the distribution of respondents at either very positive or very negative extremes of the economic evaluation scales.

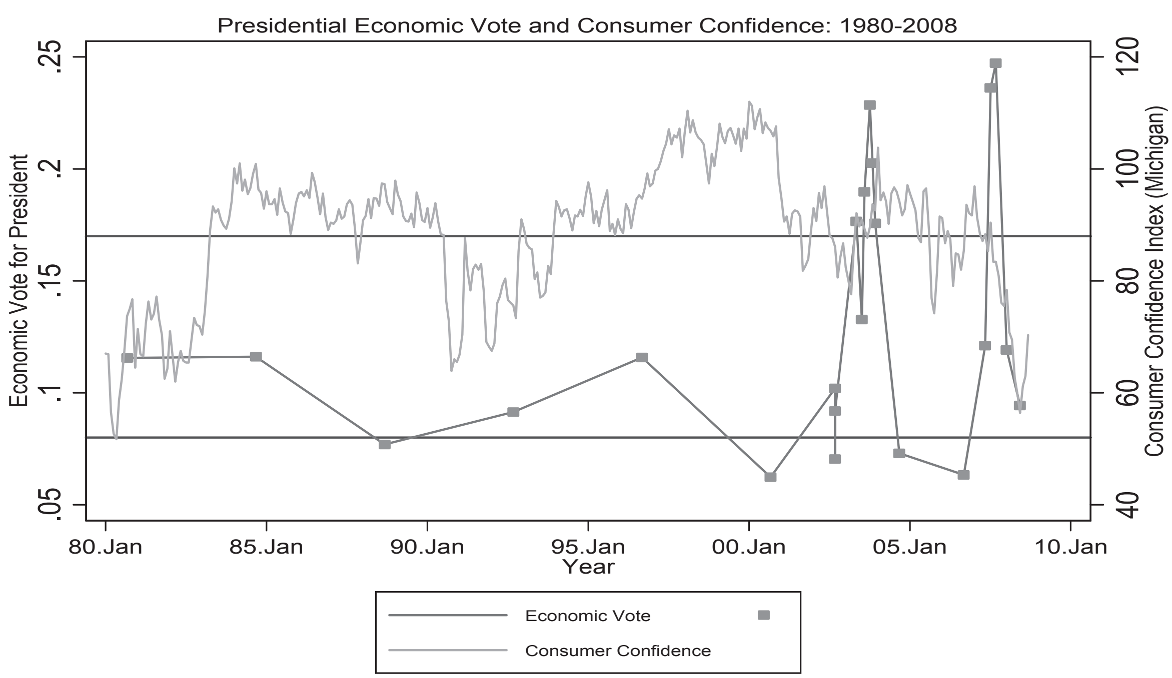
4.2 Competency and the Economic Vote in the 2008 Presidential Election

The figure presented below compares the economic vote in the 2008 Presidential election with other recent Presidential elections. Most importantly this figure highlights the extent to which the economic vote varies over time and puts the 2008 economic vote in some historical perspective. The typical economic vote in U.S. Presidential elections is about 8 percent.[3] This suggests that in a typical election a one-unit swing in economic evaluations, on a three-unit scale, costs (or benefits) the incumbent about 8 percent in vote probabilities. The economic vote in the 2008 Presidential election is 10 percent which falls above the average economic vote of 8 percent, although is slightly below the economic vote in the Carter-Reagan election of 1980, Reagan-Mondale of 1984, and the Clinton-Dole election of 1996. On the other hand, the 2008 economic vote is higher than that received by the candidates in the 2000 Presidential Election.

Is the observed variation in U.S. Presidential economic vote—and, specifically, the relatively large economic vote in the 2008 election—consistent with the Duch and Stevenson competency theory of the economic vote? I address this by exploring four aspects of the competency theory that suggest when the economy should matter in the voter utility function.

Recall that, if our competency theory is correct, only unanticipated shocks to the macro-economy should have an impact on the vote utility. As Figure 2 suggests, voters in fact did experience an unexpected shock to the macro-economy and one that was quite distinct from recent history. The initial negative shock to the U.S. economy occurred in June, 2007. This is the first major pre-campaign negative turning point for many of the macro-economic indicators. Real disposable income declined by .6 percent in the second quarter of 2007. In June of 2007 we see the first indication of a housing price crisis when the CSXR index (the Case-Shiller composite index of housing prices in the top 10 MSA's in the U.S.)

Figure 1



3 This 8 percent excludes the outliers in Figure 1 that exceed 20 percent.

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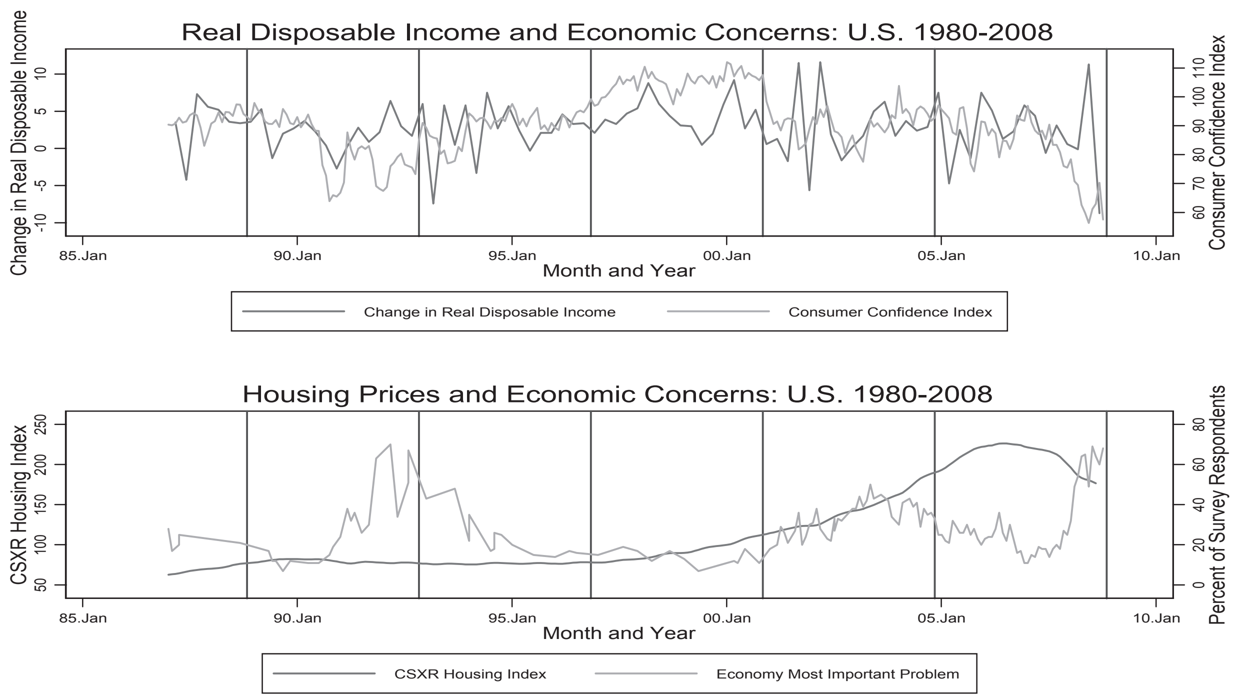
Figure 2: Economic Conditions and Economic Concerns



begins its unprecedented decline (the series begins in 1986). And, not entirely surprisingly, the Michigan Consumer Confidence Index begins its rapid decline in June, 2007. The consumer confidence indicator is clear evidence that voters were girding themselves for a significant economic downturn. In early 2007 we also begin to see evidence that the economy would likely play an important role in the Presidential campaign: the percentage of respondents to the Gallup survey question, regarding the most important problem indicating economic problems, begins to start its significant rise in February, 2008.

While unexpected shocks to the macro-economy are a necessary condition for the economic vote, as Duch and Stevenson (2008a) argue they are not a sufficient condition. We argue that the magnitude of the economic vote is contingent upon the competency signal described above. In the remainder of this essay I speculate as to how, on balance, the factors contributing to the competency component of this signal were positive, resulting in a relatively large economic vote.

First, Duch and Stevenson (2008a) suggest that concentration of administrative responsibility enhances the competency signal and diffusion of administrative responsibility amongst different decision making entities will reduce the competency signal. Relatively speaking, the 2008 Presidential elections took place in an institutional context that diffused responsibility compared to other elections. First, there was divided government—the House and Senate were both controlled by Democrats while the Presidency was controlled by the Republicans. Moreover, the absence of a running incumbent (McCain was neither an incumbent President nor an incumbent vice-president) might have diffused the Republican candidate's responsibility for economic policy. On balance, all of these "divided government" factors suggest a relatively small competency signal and therefore weak economic vote.

A second factor affecting the competency signal is a structural feature of the macro-economy, specifically the extent to which macro-economic outcomes were shaped by domestic versus global economic factors. The price shocks that occurred in the summer of 2008 were for the most part linked to global factors outside of the incumbent's control—demand for energy in developing nations such as China and dwindling reserves, etc. Hence, a good case could be made for the notion that early in the campaign the economic vote might be quite small because of these global shocks and hence voters would discount the importance of economic performance in their vote utility function. Although with commodity prices declining right before the election, blaming global factors became less plausible.

More importantly though, the most significant shocks to the economy—the housing and, subsequent, financial crises—were unambiguously homegrown. In October, 2008 just prior to the Presidential elections PEW asked a series of questions about responsibility

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for the financial crisis in the U.S.—these are summarized in Table 1. What is interesting about the results is that overwhelming percentages of respondents attributed responsibility to domestic actors, the banks and imprudent consumers in particular (75 and 75 percent respectively) while relatively small percentages attributed blame to factors exogenous to the domestic context such as global economic interdependence. And this is consistent with the findings in Duch and Stevenson (2008a) that link high levels of economic voting to lower levels of exposure to global economic trade. And comparatively speaking, the U.S. is one of the least exposed countries amongst the developed democracies.

The third factor in the Duch and Stevenson (2008a) model affecting the size of the competency signal is information voters glean from fluctuations in the macro-economy. The theory suggests that unexpected shocks to the economy inform the economic vote which implies that voters are able to resolve the signal extraction problem described earlier, i.e., determine the extent to which these shocks are the result of incumbent competency as opposed to exogenous shocks to the economy. We assume that voters have information on the overall variance in shocks to the macro-economy and that they use this signal to weight the importance of economic shocks in their vote decision.[4] What clues might the voters have deduced from recent fluctuations in the U.S. macro-economy? Figure 3 provides some insight into this issue. One way to think about signal extraction and fluctuations in real GDP is the following: To the extent that fluctuations in the macro-economy in the U.S. are similar to those in other countries, the more likely voters will conclude that the macro-economic outcomes are shaped by global factors out of the hands of domestic decision makers. And to the extent that fluctuations in the U.S. macro-economy deviate from global fluctuations, voters are likely to conclude that domestic policy makers, as opposed to exogenous global factors, are responsible for domestic economic outcomes. Figure 3 reports standard deviations in real GDP for the period 2000-2005 and those for the period 2006-2008. In the earlier period, fluctuations in real GDP in the U.S. were reasonably similar to those for the median global economy (Denmark). But in the 2006-2008 period, which is relevant for the 2008 Presidential election, the U.S. economy was quite distinct from the global economy, with the U.S. standard deviation being significantly lower than that of the median global economy, France. Hence this third

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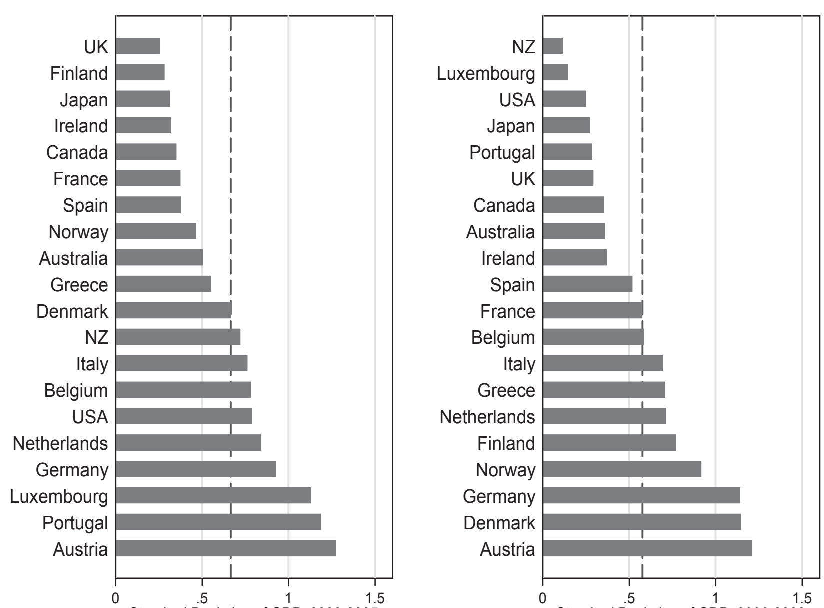
Table 1: U.S. Perceptions of Responsibility for Financial Crisis: October 2008

	Percent of Sample
People taking on too much debt	79
Banks making risk loans	72
Weak government regulation	46
Financial System too complicated	36
Growing global financial ties	35
Source: Pew Research Center for the People and the Press, October 2008	

Figure 3: Standard Deviation of GDP relative to the United States



4 Duch and Stevenson (2008b) provide a detailed discussion of how these fluctuations assist in the voters' signal extraction efforts.

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factor that shapes the magnitude of the Duch and Stevenson competency signal, macro-economic fluctuations, provided voters with a strong signal of high incumbent competency which should result in a large overall economic vote.

Finally, the Duch and Stevenson (2008a) theory of rational economic voting stipulates that voters must believe that parties are "in contention" for significant governing responsibility in order for the economy to affect their vote for that party. If anything the contention factor likely reduced the magnitude of the economic vote in the 2008 Presidential elections. In the weeks leading up to the election Obama maintained a consistent wide lead over his opponent in the public opinion polls. And most electoral college vote predictions, in the weeks leading up to the election, gave a significant advantage to Obama. Prior to the election, CQ Politics for example had only 70 electoral votes (Montana, North Dakota, Florida, Indiana, North Carolina and Missouri) as having no clear favorite—and these were not a sufficient number to give McCain the required 270 votes. Hence, on balance, the relatively low competitiveness of the Presidential election, certainly compared to the last two presidential elections, likely undermined the magnitude of the economic vote in the 2008 Presidential election.

As I point out in this essay, voters clearly experienced a significant negative economic shock going into the 2008 Presidential election. But, as Duch and Stevenson (2008a) argue, this in itself is not a sufficient condition for a large economic vote. They point out that there is another important part of the voter calculation; specifically there is a competency signal that conditions the economic vote, and this competency signal explains why the economic vote varies quite significantly from one context to the next. And the magnitude of this competency signal is determined by a number of institutional and political factors. In this 2008 Presidential election four features of the U.S. political context shaped this competency signal, i.e., the importance that voters gave to the economy in their vote decision. Two of these factors, divided government and a relatively low level of contention between the two candidates, likely undermined the importance of economic evaluations in the vote choice. The other two theoretically important factors in the Duch and Stevenson model likely increased the importance of the economic vote: macro-economic fluctuations leading up to the election provided a clear signal of incumbent competency with respect to the domestic economy. And, there were very strong signals that the sharp negative shocks to the U.S. economy were not exogenous but rather the responsibility of domestic political decision makers.

Recall that, in the competency model, the magnitude of the economic vote is determined by two separate factors: an unanticipated economic shock and a competency signal. In the 2008 Presidential election the unanticipated economic shock was quite large; in fact, many are speculating that this is one of the most serious economic recessions in recent U.S. history. This in itself of course will contribute significantly to the magnitude of the economic vote. A competency signal is the second factor conditioning the magnitude of the economic vote. Macro-economic fluctuations and a large economy that is relatively insulated from global trade shocks likely increased the competency signal which would tend to inflate the magnitude of the economic vote. But the magnitude of the economic vote in the 2008 Presidential election was tempered somewhat by institutional variables, such as divided government and an election that was less contentious than was typically the case. On balance the theory points to a significant economic vote in the 2008 Presidential elections but not one of overwhelming magnitude. And my estimate of an economic vote of 10 percent is consistent with this assessment—above the average economic vote of 8 percent but lower than the economic votes seen in 1980, 1984 and 1996.

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Stigler, George J. 1973. "General Economic Conditions and National Elections." *American Economic Review* 63:160-164. Table 3: 2008 Economic Values, Model Predictions for 2008, and Prediction Error

THE POLITICAL ECONOMIST '09

Feature Essay

Macroeconomics and the 2008 Election

Michael S. Lewis-Beck, University of Iowa
Mary Stegmaier, University of Virginia

Mary Stegmaier gratefully acknowledges the Institute of Sociology of the Czech Academy of Sciences as her spring 2009 host institution.

The economic voting model has taken its place alongside other leading explanations of the vote, e.g., sociological, social-psychological, and rational choice. It can overlap some with these other models, such as when the sociological model operationalizes class by an income measure, or rational choice conceives itself in terms of an economic cost-benefit calculus. The approach even fits within a social-psychological approach, when the influence of economic perceptions on the vote are considered. Still, economic voting stands as a distinct paradigm. The literature on "economic voting", as it came to be called about 1980, now exceeds over 400 books and papers (Lewis-Beck and Stegmaier, 2007, 2009).

There are different economic voting research strains, but the main one is macro- versus micro-studies. The former are commonly carried out on time series, the latter on opinion surveys. (See the following literature reviews: Anderson, 1995, chp.3; Lewis-Beck and Paldam, 2000; Lewis-Beck and Stegmaier, 2000, 2007, 2008; Nannestad and Paldam, 1994; Norpoth, 1996). The micro-work explores the foundations of the decision mechanism, resting on a reward-punishment theory of incumbent voting derived from Downs (1956) and Key (1966), and spread by Fiorina (1981), Kiewiet (1983), and Lewis-Beck (1988). For the United States, the case of interest here, economic voters appear more "sociotropic" than "egotropic." That is, they assess the national economy over their pocketbook. Further, that assessment is, at least in part, retrospective - how did the economy do last year?

The macro-work does not question the micro-foundations, taking as read the notion that the economy influences electoral outcomes. As Tufte (1978, p.65), a pioneer here, argued "When you think elections, think economics." Our focus relies on this macro-tradition, which divides itself into two: popularity functions and vote functions. We draw on the second approach, which directly models aggregate vote share. All published US presidential vote functions, of which there are a good number, rely heavily on an economic component in their explanation. (See the relevant review section in Lewis-Beck and Stegmaier, 2000, pp.188-191). Certain analysts, mimicking Tufte's cue, take an essentially economic determinist position. [See the original papers by Fair (1978) and Hibbs (1982), followed by their updates.].

We follow this lead, assuming that as the economy goes, so goes the election. Of course, this cannot be completely true. However, such naïve models can prove useful heuristically when conditions are new or at least unusual, as they are with the 2008 election (Lewis-Beck and Rice, 1984). Naïveté has practical virtues, as well. For one, it favors the specification of simple models, a necessity given the small sample sizes that constrain this literature. For another, it encourages a sequential and open-minded exploration of multiple macroeconomic indicators. Finally, it gives economic forces every opportunity to explain as much as they can. If the economy fails in accounting for the 2008 contest, we learn much about its explanatory limits generally.

1. The Macroeconomy and U.S. Presidential Election Outcomes

In what follows, we run a series of bivariate regressions (ordinary least squares) in order to estimate the incumbent percentage share of the two-party presidential vote as a function of various macroeconomic indicators. The data, as customary in vote function work, comprise a time series from the post-World War II period (1952-2004). We selected a host of macroeconomic indicators, with an eye to their "face validity" as important measures of American economic performance. These straightforward measures assess economic activity over a fixed time period, up to the election event itself. For example, Housing Starts are measured monthly, taking the November 1 value of the election year. Such measures, so close to the election, render the models of little use for ex ante forecasting. However, they allow economic forces their maximum retrospective impact. To gain some appreciation of these data, Table 1 offers correlations (r) relating these economic indicators to the vote. We observe that some indicators, perhaps surprisingly, show little correlation with vote share, e.g., stock market, federal funds rate. However, they are in the expected direction and some are statistically significant, despite the small N (of 14, or less).

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Table 1: U.S. Correlations of Economic Indicators with Vote Share (1952-2004)

Percent Change in Consumer Price Index	-.361
U.S. – U.K Currency Exchange Rate	-.031
Housing Starts	.555**
Consumer Sentiment	.435*
Change in Number of Unemployed Persons	-.593**
Change in Unemployment Rate	-.563**
Percent Change in Real Disposable Personal Income	.683***
Percent Change in GDP	.171
Percent Change in Dow Jones Industrial Average	.216

Notes: Pearson Correlations; *** statistically significant at .01, ** statistically significant at .05, * statistically significant at .10 (one-tailed test); N ranges from 9 to 14 observations.

Variable Measurement and Sources:

- Vote Share is the percent of the two-party popular vote received by the incumbent party;
- Percent Change in Consumer Price Index (for all urban consumers: all items) over the 12 months prior to the election (measured monthly, November 1 data used), U.S. Department of Labor: Bureau of Labor Statistics;
- U.S. – U.K Currency is the number of U.S. Dollars to One British Pound (November 1 data), Board of Governors of the Federal Reserve System;
- Housing Starts is the number of thousands of new residential construction units (measured monthly, November 1 data used, seasonally adjusted annual rate), U.S. Department of Commerce: Census Bureau;
- Consumer Sentiment (November 1 data used), Survey Research Center: University of Michigan;
- Change in Number (of thousands) of Unemployed Persons over the 12 months prior to the election (measured monthly, November 1 seasonally adjusted data used), U.S. Department of Labor: Bureau of Labor Statistics;
- Change in the Unemployment Rate over the 12 months prior to the election (measured monthly, November 1 seasonally adjusted data used), U.S. Department of Labor: Bureau of Labor Statistics;
- Percent Change in Real Disposable Personal Income over the 4 quarters prior to the election (3rd quarter data used), U.S. Department of Commerce: Bureau of Economic Analysis;
- Percent Change in GDP over the 4 quarters prior to the election (3rd quarter data used), U.S. Department of Commerce: Bureau of Economic Analysis;
- Percent Change in the Dow Jones Industrial Average over the 12 months prior to the election (data from the last weekday in October were used), Dow Jones Indexes;
- Percent Change in the Effective Federal Funds Rate over the 12 months prior to the election (November 1 data used), Board of Governors of the Federal Reserve System. With the exceptions of Vote Share and the Dow Jones Industrial Average, all data were compiled using the St. Louis Federal Reserve Bank Economic Database, http://research.stlouisfed.org/fred2/.

The regression equations, for those variables that attain statistical significance at the 90% confidence level (one-tailed test), are estimated (OLS) in Table 2. Generally, the models show good fit. The largest is for Real Disposable Income Percent Change, R-squared = .47. That model (see column 1) also generates the lowest standard error of estimate (SEE = 4.4). The median R-squared = .32; the median SEE = 4.9. Overall, the two measures provide nearly the same rank order of goodness-of-fit for the models, with the Real Disposable Income Percent Change model ranked first, the Consumer Sentiment model ranked last.

How would these five indicators do if they were combined into an overall Economic Index? To answer that question, we performed a principal components analysis to generate a single factor, which explains 64.5% percent of their common variance. Taking the factor scores from this first component, we constructed an Economic Index, regressing it on vote share (see the last column, Table 2). The Economic Index accounts for 69 percent of the variance in vote share, with the standard error dropping, SEE = 3.3. Clearly, across the post-war period, the economy is capable of explaining the lion's share of changes in the presidential vote. How does it fare when it tries to explain the change to Obama in 2008?

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Table 2: Bivariate OLS Regressions: Economic Models of the Presidential Vote (1952-2004)

	Model 1 Disposable Income	Model 2 Unemployed Persons	Model 3 Unemploy-ment Rate	Model 4 Housing Starts	Model 5 Consumer Sentiment	Model 6 Economic Index
Coefficient	2.203***	-.005**	-4.649**	.01*	.339	4.65***
(t-statistic)	(3.24)	(-2.55)	(-2.357)	(2.109)	(1.675)	(4.66)
Constant	42.492***	51.767***	51.284***	36.315***	21.334	52.66***
(t-statistic)	(12.91)	(39.02)	(36.04)	(4.61)	(1.15)	(55.11)
N	14	14	14	12	14	12
R^2	.47	.35	.32	.31	.19	.69
Adjusted R^2	.42	.42	.26	.24	.12	.65
SEE	4.4	4.9	5.0	4.9	4.9	3.3
Durbin-Watson	2.4	2.4	2.4	2.4	2.5	2.7

*** statistically significant at .01, ** statistically significant at .05, * statistically significant at .10 (two-tailed test)

Note: For variable measurement and sources, see table 1. Data cover 1952-2004.

2. Forecasting the 2008 Election from the Economy

Going into the 2008 election, conditions on these five economic indicators were bad. In fact, looking at elections across the entire series, none has a worse set of scores. Put another way, while perhaps not an outlier, the 2008 economy was bad in the extreme. In terms of economic voting theory, we would expect the incumbent Republican Party to be punished for this by a loss of votes. In terms of the empirics, we would expect, in fact, for the incumbent candidate to lose. Observe in the scatterplots of Figures 1a-1e that when the economic indicator hovers around the low values

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Figure 1a: Presidential Vote Share and Percent Change in Real Disposable Personal Income (1952-2008)

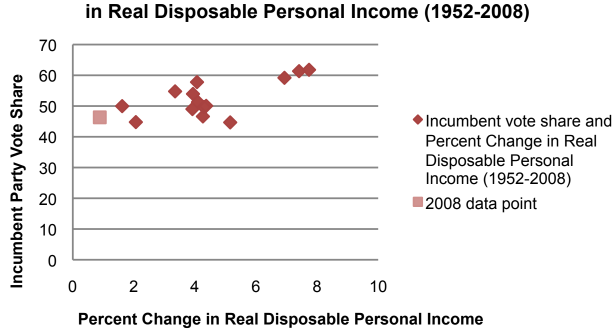


Figure 1b: Presidential Vote Share and Change in Number of Unemployed Persons (1952-2008)

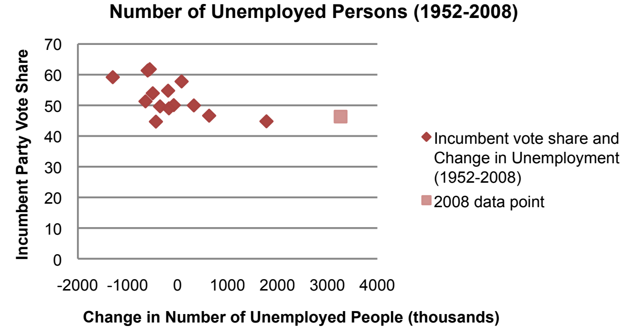
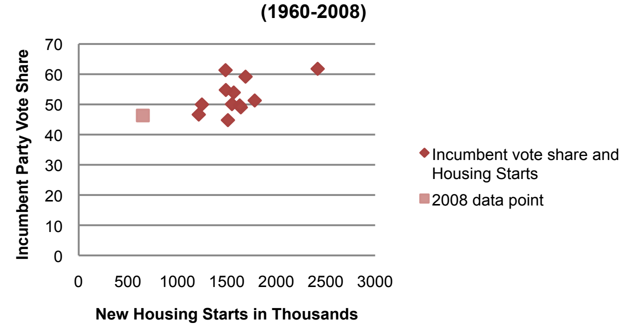


Figure 1c: Presidential Vote Share and Change in the Unemployment Rate (1952-2008)

Figure 1d: Presidential Vote and Housing Starts (1960-2008)



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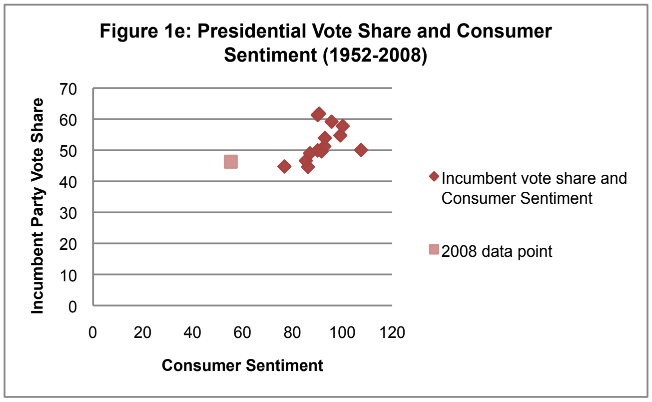

registered in 2008, the incumbent in fact has usually won less than fifty percent of the two-party vote.

What, precisely, do these macroeconomic models of the vote forecast for 2008? If we were to plug these 2008 X-values into the equations of Table 2, we would expect to get a losing prediction for the Republican candidate. And, indeed, this is what we do get. Table 3 lists the 2008 values on each of these economic indicators, along with the predicted incumbent vote share, and the difference between the observed and predicted incumbent vote share. The indicators consistently forecast a McCain loss, but a much greater one than in fact occurred. At one extreme, the Unemployed Persons equation forecasts a Republican debacle of only 35.4 percent of the two-party vote instead of the actual 46.3 percent McCain did receive. The range of negative prediction error across the models is 10.8 percentage points to 3.5 percentage points, with a median of 4.8 percentage points.

Table 3: 2008 Economic Values, Model Predictions for 2008, and Prediction Error

Economic Measure	2008 Economic Variable Value	Regression Model Prediction for the 2008 Republican Vote	Prediction Error (McCain won 46.3% of the Two Party Vote)
Percent Change in Disposable Income	.09	42.7%	3.6
Change in Number of Unemployed Persons	3264	35.5%	10.8
Change in Unemployment Rate	2.1	41.5%	4.8
Housing Starts	651	42.8%	3.5
Consumer Sentiment	55.3	40.1%	6.2

Note: The economic variables are measured as described in Table 1. The 2008 values on the economic variables are plugged into the regression models from Table 2 to calculate the regression model prediction of the 2008 election. The error in the prediction is calculated as (46.3% - prediction).

3. Conclusion

In sum, Obama should have won by a much bigger margin, on the basis of economic conditions. Why did he not? Well, one possibility is that the low Obama forecast is a simple product of random error. After all, the median error is off only about one SEE. Another possibility is systematic error. Elsewhere, we explored this question, prior to and independent of the paper at hand (Lewis-Beck and Tien, 2009a, 2009b). We concluded, from our analysis of race and that of others, that the full effects of the economic vote were blunted by racism. Certain voters would not support Obama on account of his race no matter how bad the economy. In fact, the net vote cost to Obama, by our estimate, was 5 percentage points. That is almost exactly the median under-prediction error from these macroeconomic voting models. While this could be coincidence, we think not. Economic forces, strong as they were, could not eliminate racial prejudice in the presidential vote choice.

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General Announcements

Empirical Implications of Theoretical Models EITM Europe at Manheim Summer Institute 2009, June 29–July 11

In collaboration with Washington University's Weidenbaum Centre and Department of Political Science, a founding institute of the EITM summer institute program sponsored by the U.S. National Science Foundation, Mannheim University's Faculty of Social Sciences and the Manheim Centre for European Social Research will conduct the Empirical Implications of Theoretical Models (EITM) Europe Summer Institute on the problems of testing theoretical models from a polit-economic perspective. The institute is designed for advanced graduate students and junior faculty whose research and teaching would benefit from training seminars on the link between methods of empirical analysis and theoretical models.

The EITM Europe Summer Institute concerns the relationship between formal models of politics and empirical research methods in a substantive field of political economy. The theoretical models addressed span game theory, spatial theory, social and public choice theories, agent-based and behavioral economics models, domestic and international political economy, and general equilibrium models. Empirical methods include basic and advanced statistical techniques and spatial models, experimental and field methods, and computational methods. The program aims to advance scholarship exhibiting more-seamless integration of theoretical model development and empirical evaluation through a highly interactive training program, primarily for advanced graduate students (and possibly some a few junior faculty), led by distinguished scholars from across the discipline working at the forefront of such empirical-theoretical integration.

The EITM Europe Summer Institute concentrates on areas of political science where research integrating both theory and methods already exists. Following the successful format of the U.S. EITM series (since 2002), the EITM Europe Summer Institute 2009 will cover three such areas. Each unit surveys its substantive area, stressing key previous theoretical and empirical developments. It explicates the steps needed to construct "tests" of models in that area by, e.g., considering basic-assumption validity or drawing testable conjectures from comparative statics and other deductions from the model. And it discusses appropriate empirical methods for evaluating whether and how data confirm or reject the model, developing more-fully any highly specialized techniques required. These empirical-modeling considerations could involve specifying test equations with the proper control variables and functional forms, deriving statistical estimators, designing an experiment, or framing a simulation.

The EITM Europe Summer Institute 2009 is comprised of three seminars over the course of a two week period from June 29th to July 11th: a basic seminar "Theoretical and Methodological Foundations" and two advanced seminars "Random Utility Models and Strategic Choice" and "Operationalizing the Spatial Model". The instructors comprise Professor Dr. Randall Calvert (Washington University in St.Louis), Professor Dr. Mark Fey (University of Rochester), Professor Dr. Andrew Martin (Washington University in St.Louis), and Professor Dr. Kevin Quinn (Harvard University), all of whom have participated in previous U.S. EITM institutes at Washington University. Seminars will be held in English with relatively small classes. Together with the Mannheim University's Faculty for Social Sciences and the Mannheim Centre for European Research the EITM Europe summer institute is funded by the Mannheim Graduate School of Economic and Social Sciences.

For applications and further information, please visit: http://eitm.sowi.uni-mannheim.de/

General Announcements

Call for Papers

Cornell University Institute for the Social Sciences
Conference on Institutions, Behavior and the Escape from Persistent Poverty

http://www.socialsciences.cornell.edu/0811/IBEPP.html

Cornell University, Ithaca, NY, USA
Monday-Tuesday, November 16-17, 2009

Paper Proposal submission deadline: April 30, 2009

Institutions that many social scientists have long favored – competitive markets, a democratic polity, secure private property rights, universal access to education and health care – have been on the march across the globe. Especially with rapid advances in information and computing technologies and other pressures, familiar electoral, family and community institutions have likewise seemingly grown increasingly inclusive even in countries that have long been market-based democracies with firm systems of property rights and social services. In spite of these institutional changes over the past generation, the absolute number of people living beneath the poverty line has remained large and essentially unchanged in most high income countries, while the numbers of Africans living on less than $1/day per person have doubled, the number of poor in Latin America has grown, and even South Asia has failed to enjoy any significant drop in the number of extremely poor people in spite of remarkably rapid economic growth. Meanwhile, upward mobility in east Asia has proceeded at a pace unprecedented in human history. Since the benefits of institutional reforms seem to be bypassing a billion or more people world-wide, social scientists need to provide a deeper, more robust and rigorous institutional explanation of what accounts for persistent poverty.

This conference, organized by the Cornell Institute for the Social Sciences' Persistent Poverty and Upward Mobility theme project (http://www.socialsciences.cornell.edu/0811/desc.html), will explore what we know about the effectiveness of different institutional changes expected or even intended to promote upward mobility and to reduce persistent poverty. What institutional factors explain the markedly different intra- and inter-generational experiences of different low-income groups, in terms of income growth, wealth accumulation, health, education and other indicators of human capital formation, vulnerability and other measures of human well-being? Institutions of interest range broadly; they might be political (e.g., changes in electoral practices), legal (e.g., end of legal discrimination, changes to property rights and tenurial regimes), market (e.g., the emergence of new vertical coordination or contracting arrangements, introduction of new financial services for the poor), or sociocultural (e.g., immigration that changes the ethno-religious composition of neighborhoods). The focus of the conference will be on how institutional changes shape the incentives and constraints faced by ex ante poor populations and if/how such changes help them escape from persistent poverty and why, as well as on how patterns of socioeconomic mobility in turn shape the endogenous evolution of institutions. We solicit work that addresses these issues in any region of the world, and at individual, household, community or other sub-national levels of analysis. We are especially interested in theoretically-grounded, robust empirical findings based on extended micro-level or community-level longitudinal studies that look at how institutional changes affect – or fail to elicit any change in – the behaviors and socioeconomic mobility of the poor.

The conference will blend invited papers from a small group of eminent social scientists – confirmed keynote speakers include Phil Keefer (World Bank), Anirudh Krishna (Duke University), Ruth Meinzen-Dick (International Food Policy Research Institute) – with papers selected from proposals received in response to this call for papers. Presentations will all be in plenary session with assigned discussants. Rapporteurs will take notes for the authors and organizers on the open discussion of each paper.

The organizers will pay for one economy class round-trip airfare, ground transport and local hotel and meal costs for one presenter per selected paper.

Paper proposals consisting of (i) a 2-4 page extended abstract, and (ii) names, affiliations and contact details of all authors, identifying the presenting author explicitly, should be submitted via email to socialsciences@cornell.edu as a .pdf file no later than April 30, 2009. All submitters will be notified by June 1. Complete papers and a 100-word abstract must be delivered no later than October 15, 2009, in order to provide discussants adequate time to prepare comments and the organizers time to approach prospective journals or publishers about the collection of papers. The organizers will arrange for one or more special journal issues or edited volumes to be published subsequent to the conference, with the exact arrangements to be decided in consultation with the presenters once the program has been established.

For more details on the event, including logistical issues, please visit the conference web page at http://www.socialsciences.cornell.edu/0811/IBEPP.html.

General Announcements

Call for Papers

Conference on "Globalization and Natural Resources"

Organizers: Nita Rudra & David Bearce
University of Pittsburgh

Diminishing natural resources is of vital concern to all nations. Political economists have analyzed how nations handle their natural resources, particularly how domestic institutions affecting how they use that wealth have, counter-intuitively, often played a role in limiting economic growth. Conventional analyses, however, suffer from a serious shortcoming: they neglect the dilemmas created by economic openness in managing these globally diminishing resources. While much research has focused on the management of natural resources and its political-economic effects within state borders, it is surprising that in an increasingly interdependent world, few scholars have directly examined the links between natural resources and the global political-economy. This subject would be the focus of the upcoming conference. More specifically, the conference will focus on the role of bothinternational economics and international politics in the management of natural resources. We invite papers that apply tools from international political economy to explain how factors such as international trade, international capital, international remittances, international cooperation affect the conservation and management of vital natural resources in the global economy.

This proposed conference would focus on a wide range of topics that examine the links between international political economy and diminishing natural resources. We invite papers that seek to answer any questions similar to the ones outlined below. Any topic that considers international political economy concerns in their analyses of natural resource management will be seriously considered. Broad examples are:

- How does the structure of the global economy affect the way natural resources are used?
- How does the spread of democracy impact the management of natural resources? Are democracies more efficient at managing natural resources than nondemocracies?
- If, how, and why does globalization/greater economic interdependence lead to more efficient government management of natural resources?
- What are the links between International Organizations and sustainable use of natural resources?

The conference will bring together the selected paper givers and several well-known scholars as discussants (e.g., Ronald Rogowski, James Caporaso, Benjamin Cohen, Dennis Quinn*, John Odell*, Peter Rosendorff). It will be held at the University of Pittsburgh on September 24th and 25th. Authors must have their papers ready by mid September 2009. Our broader objective is to prepare a special issue on this topic. The target journals are International Organization and Comparative Political Studies. After the conference, the papers will undergo the normal peer-review procedures before being published in a special issue.

Please submit detailed suggestions for papers (1 page) to Nita Rudra (rudra@pitt.edu), and David Bearce (david.bearce@gmail.com) by 5 June 2009. The abstracts should clearly state the hypothesis, methodology, findings, and contribution to literature. We will notify the selected authors in early July 2009 with further details. Travel costs and accommodation will be provided for all accepted participants

*invited

Assessment Memo from the APSA Committee on Teaching and Learning

Recently, APSA has convened a committee to consider how the association can help departments with assessment of teaching and learning. The resulting memo is now available (http://www.apsanet.org/media/PDFs/TeachingandLearningCmtMemoonAssessment.pdf). If you have comments or suggestions about the memo or its proposals, please contact Kimberly Mearly, APSA Director, Education, Professional and Minority Initiatives (kmearly@apsanet.org) or Kerstien Hamann, Chair, APSA Committee on Teaching and Learning (khamann@mail.ucf.edu) by June 1, 2009.