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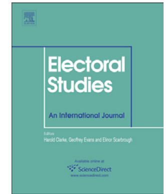

The myopic voter? The economy and US presidential elections☆

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ABSTRACT

Most scholars of the economy and the vote assume that voters are myopic and focus only on events during the election year. Some take an alternative view and posit that voters are more far-sighted and take into account earlier information. Who is right? This paper addresses the time horizon of economic voting focusing on US presidential elections between 1952 and 2012. The analysis considers whether voters respond to economic change at different points in the election cycle using two objective indicators—income growth and the gross domestic product—as well as a subjective measure of business conditions. The results using each of these measures reveal that voters do not react only to very late economic events or to what happens over the entire election cycle, but that they respond equally to developments during the last two years of a presidential term. The finding contrasts with the dominant approaches in the literature and makes clear that scholars should settle on functional form based on careful empirical analysis and not by assumption.

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The importance of the economy for elections is well documented. The now huge body of literature clearly shows that voters reward or punish incumbent candidates and parties based on the state of the economy—they make referendum judgments.[1] Almost all of the research demonstrates that voters base their judgments on the economic past and not the future—they are primarily retrospective, not prospective. Almost all research also demonstrates that voters focus on change in economic conditions not their level—they evaluate the government based on whether and how much the economy has gotten better/worse, not whether and the extent to which things are good/bad. On these points there is a good amount of scholarly agreement. Where scholars disagree is with regard to whether voters rely only on very late economic change or whether they take a longer view.

All research shows that voters based their judgments more on late-arriving change than earlier events. Most studies either explicitly or implicitly assume that voters are myopic and focus *only* on late economic change (see, e.g., Abramowitz, 2008; Campbell, 2008; Gelman and King, 1993; Holbrook, 1996; van der Brug et al., 2007; Kayser and Wlezien, 2011; Kramer 1971; Stigler, 1973; Tufte, 1978; also see the reviews in Campbell and Garand, 2000; Lewis-Beck and Stegmaier, 2000). The time horizon used in this research does vary – from a single pre-election quarter in some studies to the full election year in others – but in all cases scholars do not consider information from earlier in

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[1] Research does show that the alternative candidates/parties also matter.

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the term.[2] Now, some take an alternative view, and consider the effects of earlier economic events, most notably Hibbs (1987). He conceives of voters responding to economic growth over the entire term, though with geometrically decreasing weights going back in time from the end of the election cycle. A few others have followed Hibbs' lead, including Erikson (1989); Wlezien and Erikson (1996, 2004); also see Erikson and Wlezien (2012a).

The voter psychology in each model of economic effects is not entirely clear. In the standard "myopic" model, there are at least two possibilities. First, voters may engage late in the process, as the election approaches, and take stock of things at that point in time. Since they consult the economic flow at the end of the cycle, voters only reflect that information on Election Day. Second, voters may have information about previous economic events but discard it when going to the polls. Here they *choose* to vote only on the basis of what has happened lately. It is not clear why voters would do this, but one possibility is that they use late economic information to indicate future economic trends. There are other possibilities, of course, including the characterization of the economy in mass media coverage leading up to elections (Healy and Lenz, 2014; also see Soroka et al., 2015).

There also are at least two possibilities in Hibbs' model. First, there is a "rational" version, where voters explicitly discount conditions earlier in the term, e.g., at the beginning, over which they may have had little effect. This presumably would be true if the president is in his first term and was preceded by a president from the other party. Second, there is a psychological version. Here it may be that voters increasingly (going back in time) forget about what happened. It also may be that voters do not forget the past but care more about recent events than past events *and* do not completely discount the past, in contrast with the standard approach. Much as was discussed above, the emphasis on late economic information provides a basis for projecting future economic trends.

Who's right? That is, are voters near- or far-sighted? The answer is interesting unto itself but also important, as there are big consequences for representative democracy. This perhaps is stated most clearly, if not strikingly, in Achen and Bartels' (2004) "Musical Chairs." Here, elections hinge only on what happens at the very end of the election cycle, as voters ignore everything that occurred earlier.[3] If politicians cannot control the direction and timing of economic change, which seems a (very) reasonable assumption, then election outcomes are a matter of luck and not effective democratic accountability. If politicians can precisely control economic change, the implication is not much more satisfying, as it raises the possibility of manipulation, as per classic business cycle models. Now, if voters do not only use late information but rely on earlier information, voters' Election Day judgments may be more meaningful. They may reflect things for which politicians should be held accountable.[4] If nothing else, they would be less subject to chance.[5]

This paper addresses the time horizon of retrospective economic voting, focusing specifically on US presidential elections between 1952 and 2012. The analysis considers whether and how voters respond to economic change at different points in the election cycle using quarterly data on certain commonly-used objective indicators—income growth and the gross domestic product—as well as a subjective measure of business conditions. The results using *each* of these measures reveal that voters do not react only to very late economic events and also that they do not react to what happens over the entire election cycle. Indeed, voters appear to respond almost equally to developments during the last two years of a presidential term and virtually not at all to earlier events. The result contrasts with the two dominant approaches and strongly implies that scholars of economics and elections—and seemingly other areas of electoral research—should settle on functional form based on careful empirical analysis and not by assumption.

1. Income growth and the presidential vote

Tufte (1978) introduced income growth into studies of economic voting in the US. He used the measure of real per capita disposable income (RPCDI) from the US Commerce Department's Bureau of Economic Analysis. It is a very general measure of economic welfare, one that takes into account what government actually does in the form of taxes and transfers. This adjustment makes it a measure of actual "disposable" income. In his model of election outcomes, Tufte conceived of voters as responding to income growth during the election year, which would provide the basis for a political business cycle (see Nordhaus, 1975).

Most other research that examines the economy and the vote, whether it focuses on income or some other measure, takes a similar approach, and posits that voters respond only to what occurs during the election year. The typical model of the presidential vote uses measures from the 2nd or 3rd quarter of the election year, presumably is based on empirical analysis. Achen and Bartels' (2004) detailed analysis supports that specification. Specifically, their analysis shows that income growth during the two pre-election quarters – the 14th and 15th quarters of the election cycle – predicts very well and that earlier income growth adds absolutely nothing. The implied quarterly weights on growth over the 16 quarters of the election cycle are shown in Fig. 1.

Hibbs (1987) also focused on income growth. In contrast with Tufte and most others, he conceived of voters as responding not only to growth at the very end of the campaign but to ebbs and flows over the entire election

[2] It is worth noting that some, but not all, of the research includes measures of presidential approval or actual candidate support, variables that do reflect the effects of earlier economic events, i.e., those models do implicitly – and indirectly – take a longer view.

[3] Also see Bartels and Zaller (2001). For a contrary view, see Erikson, Bafumi and Wilson (2001).

[4] It might even give politicians an incentive to not induce political business cycles.

[5] All of this applies to "floating voters" (Zaller, 2004), as most voters are driven by "internal" fundamentals, especially partisan dispositions (Erikson and Wlezien, 2012a; also see Gelman and King, 1993.).

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