

# **The Impact of Short Term Economic Data on the Perception of Public Officials: Analysis of the 2008 Economic Crisis and the American Presidential Election**

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## Abstract

*As the economy of the United States fluctuated in the months leading to the 2008 presidential election, so did the public's perception of the two leading candidates for the Oval Office. While American voting habits and economic trends have been researched heavily, the potential to analyze the effects of the economy on public opinion during an historic recession is just being uncovered. Using data from the 2008 American National Election Study, as well as daily closing numbers of the Dow Jones Industrial Average, trends emerge suggesting a possible relationship between short run economic indicators and the public's views towards political figures like John McCain and Barack Obama. Analysis finds little consistent relationship between daily changes in stock prices and changes in perceptions of the presidential candidates.*

## Introduction

The presidential election of 2008 carried historic significance for a multitude of reasons; the American electorate chose an African-American man to lead the nation for the first time, while telling a hockey mom from Alaska, “thanks, but no thanks,” after being chosen by Republican John McCain to run to become the first female Vice President of the United States. It was determined early in the race that a sitting U.S. Senator would be elected to the presidency for the first time in over 40 years, and that America would have to wait at least four years to see a female reach the oval office.

The significance of this election is affirmed by the economic crisis, caused by the bursting of a sub-prime mortgage bubble, and leading to a severe recession. As 2007 neared an end, foreclosures had begun to reach record levels, increasing more than 600 percent over the previous year. Throughout 2008, the Federal Reserve Bank of the United States announced rescue packages for struggling banks and takeovers of other firms, such as Fannie Mae and Freddie Mac, in September. During the same month, AIG (American Financial Group) received \$85 billion from the Fed.

During the same time, the stock market demonstrated immense volatility, sometimes fluctuating by hundreds of points in a single day. President Bush, along with a Democratic-controlled Congress, passed a bailout bill totaling over \$700 billion, as cities and states faced bankruptcy.

As the economy spiraled downward, public approval of President Bush and Congress continued on a steady decline. While the incumbent President watched his poll numbers fall, hopefuls Barack Obama and John McCain battled for the White House.



Economic health soon became the prevailing discussion on the campaign trail, and America began paying attention to their money, only after watching much of it disappear.

## Literature Review

### Voting Behavior: Party Identification, Candidate Characteristics, Issue

#### Voting

Since its publication in 1960, *The American Voter* (Campbell et al.) has been the most prominent piece of literature surrounding the study of voting behavior. The authors use a concept called the funnel of causality to study what determines voter behavior. The dependent variable, an individual's vote, is located at the narrow end of the funnel, with all influential factors at the wider end. Maisel and Brewer (2010) offer a textbook explanation of *The American Voter*, pointing out the main arguments of the piece. Great emphasis is placed on elements of political socialization (parent's political views, school, work, church, etc.). They are pessimistic when analyzing the role that such factors play in democratic theory, because voters are not capable of making decisions by rationally considering issues; rather, they use these elements of socialization to choose a candidate or party.

Flanigan and Zingale (2006) argue that voter choice is the central focus in the study of American political behavior. Presidential elections carry the greatest significance of any mass political activity, and individuals vote based on a number of different factors, including partisan affiliation, candidate image and issue impact.

#### *Party Identification*

In analyzing voter behavior, partisan affiliation is a basic characteristic that influences an individual's choice of candidate. Flanigan and Zingale assert that an individual's partisanship can be constructed as a long-term predisposition to vote for one party or another, *ceteris paribus*. Weisberg and Devine (2009) point out that those who

self-identify as strong partisans rarely vote against their party's presidential candidate, whereas weak partisans are more likely to vote split-ticket. Campbell et al. also offer the same argument, adding that independents, who are weak partisans and those with no partisan affiliation, are generally the least interested in politics. Such individuals are also the swing votes in major elections, since strong partisans' votes are normally decided long before an election. The number of voters who self-identify as independents has risen steadily in recent decades, and Weisberg and Devine also discovered that leaners tend to vote for the party towards which they lean. They concede, however, that this could be because independents claim to lean towards the party for which they plan to vote in the upcoming election. In their research, Flanigan and Zingale accept partisanship as a constant, since an individual's party affiliation is not likely to change in the short-run. Maisel and Brewer point out that the authors of *The American Voter* had hoped to find an electorate that was able to make informed voting decisions, yet found an unsophisticated electorate, in which partisanship was often based on irrelevant and overly simple issues.

Leading up to the 2008 election, it appeared as if the Democratic Party was on the rise. Weisberg and Devine laid out a time line of the Democratic Party's rise, beginning with the 2006 electoral victories that gave Democrats control of both houses of Congress. Following the 2006 election, George W. Bush's approval ratings continued to fall into the 20's and 30's, while Democrats registered voters in record numbers. They eventually found that party identification played a major role in the 2008 election, but the independent vote ultimately sent Barack Obama to the White House.

### *Candidate Characteristics*

While it may not be the best indicator as to how a candidate will perform in office, candidate image has become an increasingly important factor in the world of voter



opinion. According to Flanigan and Zingale, no single pattern can be associated with either political party, but it can be said that presidential candidates, regardless of party, are viewed far less favorably than in the past. This gives evidence of voters choosing the lesser of two evils and not a candidate who is widely viewed as favorable. The idea of candidate image is very broad. Voters surveyed in previous National Election Studies made comments that ranged from personal traits ("He's old," "He seems sincere") to policy positions ("He has good ideas about national defense"). Flanigan and Zingale use similar examples to emphasize the importance in interpreting candidate image as more than just personality traits. They mention George H.W. Bush's positive image during the 1988 campaign, which by 1992 had deteriorated significantly to one of the worst in forty years. Incumbent candidates or those involved in a previous administration are held accountable for their actions during previous terms, giving merit to the theory of retrospective voting. On the other hand, Flanigan and Zingale argue that lesser known presidential candidates have a greater opportunity to create a favorable image during their campaigns. High-profile and incumbent candidates see this as an opportunity to portray their opponents in a negative light. According to Weisberg and Devine, Obama was viewed as the candidate with greater integrity and leadership abilities, yet his lack of experience was not a major concern of the electorate. They argue that President Bush's low approval ratings were not even a major factor, because they would have hurt any Republican candidate. 2008 was also an historic election because of the issue of race. It showed that while Americans can go beyond the issue of race during an election, the best way to view the influence of race in American elections will be to analyze it after the Obama Administration is no more, which was how the Catholic vote was best analyzed after John F. Kennedy's presidency.



## *Issue Voting*

In addition to the aforementioned approaches to explaining voting habits, voters cast their ballots with issue impacts in mind. This is perhaps the most complex aspect of American elections. While a vast array of issues exists in American politics, from national defense to same-sex marriage, I focus on economic issues, and how they shape voting habits. Two main patterns in economic voting habits emerge: whether voters vote looking forward or backward, and whether individuals vote based on their personal financial conditions (pocketbook voting) or based on the state of the macro economy (sociotropic voting).

Flanigan and Zingale introduce the concept of retrospective voting by analyzing the work of Morris P. Fiorina. Fiorina (1981) stated that voters are continuously evaluating the performance of parties, especially the president's party. To the retrospective voter, past performance is a good predictor of future performance, and this is what will ultimately affect vote choice. This theory is reinforced by J. Merrill Shanks and Warren Miller (1991), who found a correlation between an individual's opinion of Ronald Reagan's presidential performance and their choice between George H.W. Bush and Michael Dukakis. Flanigan and Zingale further explain this concept by comparing the 1992 and 1996 presidential elections, in which both candidates were incumbents. In 1992, Bush experienced low popularity, and was defeated. Conversely, Bill Clinton was reelected in 1996 after experiencing high approval ratings. Gomez and Wilson (2001) take this a step further, relating the reasons behind vote choice to political sophistication. They argue that people need to understand who caused an effect, and while more information helps, the level of political sophistication will ultimately affect this understanding. With a greater amount of sophistication comes an awareness that the

President is not the only actor in the political arena, and that Congress, the courts and the bureaucracy play a role in shaping politics. Gomez and Wilson state that it is more difficult for low sophisticates to attribute changes in economic changes to appropriate political actors.

After looking backward, only then can a voter look forward. Most politicians campaign on the promise of a better situation than was present under his/her predecessor. While an individual might vote based upon the change they feel a certain candidate will deliver, they are doing this with a memory of the incumbent administration's actions, making the retrospective issue a significant part of voting decisions even though they are looking into the future.

### **A Second Distinction**

When examining economic voting habits, voters make their economically-based decisions based on either their own financial situation or the state of the macroeconomy. Kramer (1983) presents economically-based, or sociotropic, decisions as ones where voters assess and respond to economic conditions in terms of altruistic or sociotropic considerations. Sociotropic voters make their decision based on what is good or bad for the country as a whole, rather than in terms of personal self-interest. Gomez and Wilson acknowledge sociotropic variables as the strongest cross-sectional predictors of individual candidate choice. They also point out, however, that individuals do not vote based solely on sociotropic or pocketbook issues, rather a hybrid of the two.

In their publication, Gomez and Wilson contradict the established wisdom by asserting that more sophisticated voters choose candidates based on their pocketbook evaluations. Less sophisticated individuals vote on sociotropic grounds because the President is dominant when it comes to their evaluations of the macroeconomy, but these



individuals fail to make the necessary connections to personal financial situations. It is also clear that voters filter information depending on what they want to hear, which affirms party identification theories (ex. a Democrat is more likely to disregard an attack on Barack Obama than one on George W. Bush).

However, existing literature does not include the effects of short-term economic indicators in an election cycle occurring in the middle of a severe recession.

Given the knowledge of American voting habits, we can test whether or not American public opinion was shaped by daily economic indicators in the months leading up to the 2008 presidential election. 2008 was a remarkable election year, as the months before the election found the nation in an economic crisis, where daily indicators such as the Dow Jones Industrial Average fluctuated greatly on a day-to-day basis. Using a compilation of data from the American National Election Study, along with statistics pertaining to daily economic indicators, I hope to find a correlation between these variables and public opinion. It will be beneficial to determine if the effect is greater on different demographic groups, or individuals with different levels of political sophistication.

## **A Look at Stock Indices**

When an investor wants to know how the stock market is performing, he looks to a stock index, which, according to Fortune, is a measure of the “average” price of common stocks. An index is carefully calculated, using criteria specific to that particular measure. Fortune delivers a list of five desirable characteristics of stock indices. While indices have their weaknesses, they are still the strongest way of gauging market performance. First, investors can use indices to compare their portfolio’s rate of return to that of a stock index. If an individual is investing wisely, he can expect to see a five percent increase in



his portfolio over a period of time if a relevant stock index performs similarly. Second, an index should measure price changes resulting from market forces. It must be taken into account, however, that a stock price is also affected by events occurring within a firm, making an index less indicative (if only very slightly) of market performance.

Continuing with his list, Fortune asserts that a stock index should adjust to a firm's internal decisions that affect stock price, such as stock splits or mergers. It should also adjust according to a stock's share in a portfolio representative of the average investor. Finally, an index should not contain too many stocks that are traded very frequently, as these prices are more volatile, which generally does not the market as a whole.

### *The Dow Jones Industrial Average*

The Dow Jones Industrial Average, which has been in existence since 1896, is the oldest and most frequently quoted stock index. It measures the stocks of thirty mature corporations, the volume of which accounts for one quarter of all stocks traded on the New York Stock Exchange. According to Fortune, Dow Jones alters its indices to reflect the splitting of shares and the insertion/removal of firms from the index. Firms are either added or removed due to a change in the company's identity or representativeness of a sector.

## Methods and Analysis

The American National Election Study (ANES) is perhaps one of the most consistent and well-recognized surveys involving voter behavior. Since 1952, University of Michigan researchers have collected public opinion data for every presidential and midterm election. The data acquired is used not only by political scientists, but also by researchers in all fields of the social sciences community. Since 1977, the study has been recognized by the National Science Foundation as a national research resource.

Accompanying the ANES in this paper is historic data for the Dow Jones Industrial Average (DJIA), which will serve as the independent variable for this study. The closing number for each day was added into the ANES dataset in relation to the date of interview, and given a one-day lag, because it is assumed that most individuals would react to stock market information relayed by the previous day's evening news. Dependable stock market data can be acquired from most any financial website, such as Yahoo finance.

A number of dependent variables were tested, including:

- Forecasts of the economy assuming Barack Obama wins election
- Forecasts of the economy assuming John McCain wins election
- Feeling thermometers for John McCain and Barack Obama.

The data was then tested among various demographic groups, separated by party identification, gender, whether or not the respondent has money invested in stocks, household income, and news exposure.

Using Pearson's correlation coefficient, it can be determined whether or not an association exists between two variables. DJIA always serves as the independent

variable, while the same set of dependent variables were tested for each demographic group. The results are as follows:

*Table 1 about here*

After all correlations have been run, we find three significant measures of slight correlation, two of which come as no surprise. Among Democrats, there is a Pearson correlation of -0.113 between the DJIA and their prediction of the economy's performance in the upcoming year should a Republican win the election.

Among Republicans, there is a Pearson correlation of -0.235 between the DJIA and their prediction of the economy's performance in the upcoming year should a Democrat take the Oval Office.

*Figure 1 about here*

I would argue that these measures of correlation are indeed positive, rather than negative, as the data would indicate. This is because a positive outlook of the economy was coded 1, with a negative outlook coded 5. Given this coding, a drop in the DJIA would be matched with a raise in the mean outlook, or simply that a drop in the Dow leads to a negative view of the economy in the year to come. Logically, a drop in stock prices should lead to a drop in future expectations.

*Figure 2 about here*

The results of these two measures comes as no surprise, considering partisans are most likely to place blame for a negative event on the opposition party. Considering the divided government that was in place, it makes sense that Democrats would hold a Republican President accountable, while Republicans would hold a Democratic Congress accountable.



The final statistically significant measure was the Pearson correlation between the DJIA and a forecast of the economy's performance in the event a Republican wins, among respondents holding no money in stocks. A weak correlation is evident, at -0.106. Adjusting for the coding discrepancies that were recently discussed, a weak positive correlation exists between the two variables. This would suggest that individuals with no stake in the stock market would use its performance as an indicator of the future of the economy.

*Figure 3 about here*

There is little to no correlation between all remaining variables.

The next step was to analyze the data by examining the actual daily change in the variables, rather than information from each individual day. This allows for more accurate analysis of the effect that changes in stock prices have on public opinion, because changes in stock prices are matched with changes in public opinion.

A small dataset was compiled using information from the ANES dataset. First, daily changes in the Dow Jones Industrial Average were inserted in chronological order. Analyses of means were then run to find the mean measurement of our feeling thermometers for both candidates, with each date receiving a corresponding mean rating. These means were then entered into an Excel spreadsheet alongside the corresponding Dow Jones figures. This was repeated after breaking respondents down by party identification, this time including *independents*. Once all information was entered into the spreadsheet, it was then transferred into SPSS for analysis by Pearson Correlation.

*Table 2 about here*

We see that, in this analysis, no significant correlations were found. However, we do see a larger correlation among independents than with partisans, and the general respondent base.

## Conclusion

After calculating Pearson correlations between the DJIA and four variables among many different demographic groups, I found that a correlation does not exist between changes in stock prices and public opinion. The significant correlations found between the Dow and the predictions of future economic performance among Democrats and Republicans can be better explained by partisanship and animosity between the two political groups.

The correlation among those without money in stocks, between the DJIA and the forecast of the economy under a Republican president, is interesting, because it would have made more sense for those with money in the stock market to view its performance as a reflection of political actions. Perhaps this is because those who have invested in stocks are more aware of the factors that affect stock prices, both political and non-political. They can properly place blame on the responsible groups for fluctuations in their portfolio.

However, considering only three out of 48 correlation measures are significant, it is clear that changes in stock prices do not directly affect public opinion. Even individuals with high levels of news exposure, who would most likely see daily reports of changes in the stock market at least once in a newscast or newspaper, did not make any political connections to stock performance.

In the second set of analysis, the daily changes in stock market prices were compared to the daily changes in the means of public opinion measures. The lack of statistical significance reasserts that there is no direct relationship between the two concepts. Although not statistically significant, we did see much larger Pearson's R measures for the variables among independents. This shows that independent voters



placed more blame upon the Republican party for drops in stock prices. However, as would be expected, partisans blamed the opposition for any negative events.

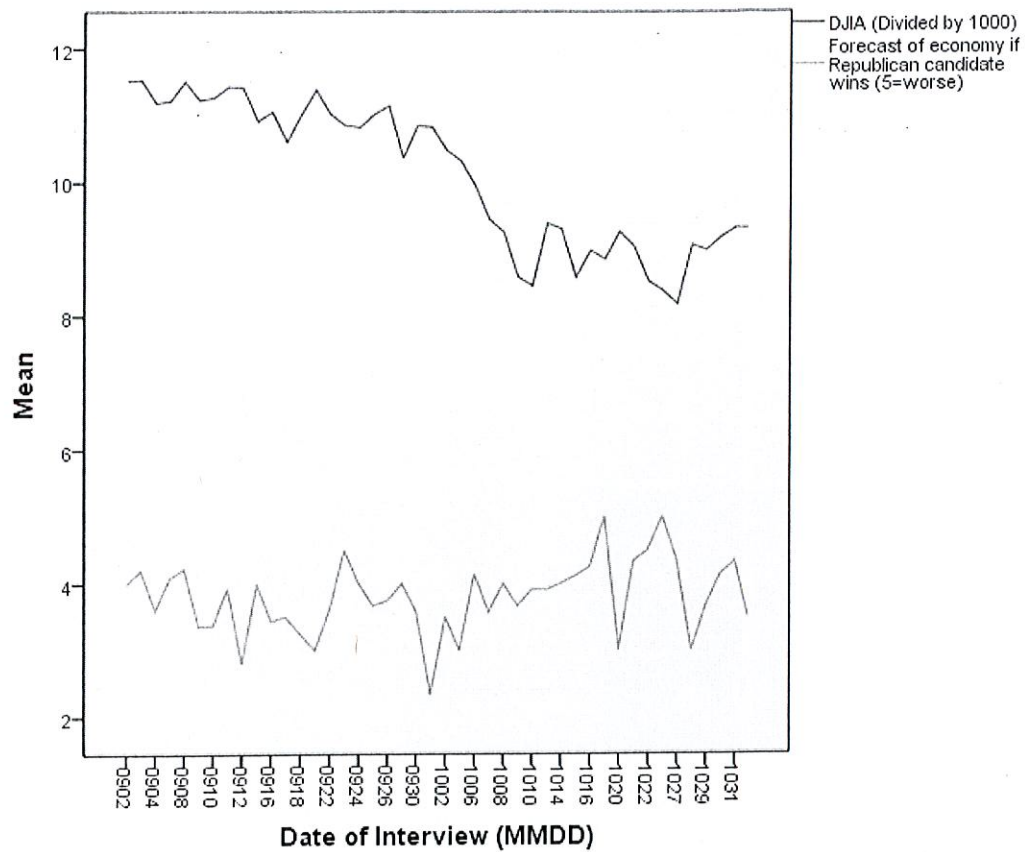
While the research does not support a direct link between stock prices and public opinion, it reaffirms the well-established fact that party identification is one of the largest determinants of voter choice. This carries a very large implication for American society; many individuals fail to look beyond whether a candidate is a Democrat or a Republican, while they should be evaluating economic, social or defense issues, to name a few.

Since this analysis was limited to economic issues, the results could potentially be telling us that Americans do not place a great emphasis upon economic issues. However, given the circumstances of the 2008 election, the notion of party identification is a much better explanation of what exactly determines public opinion.

## Appendix A: Tables and Figures

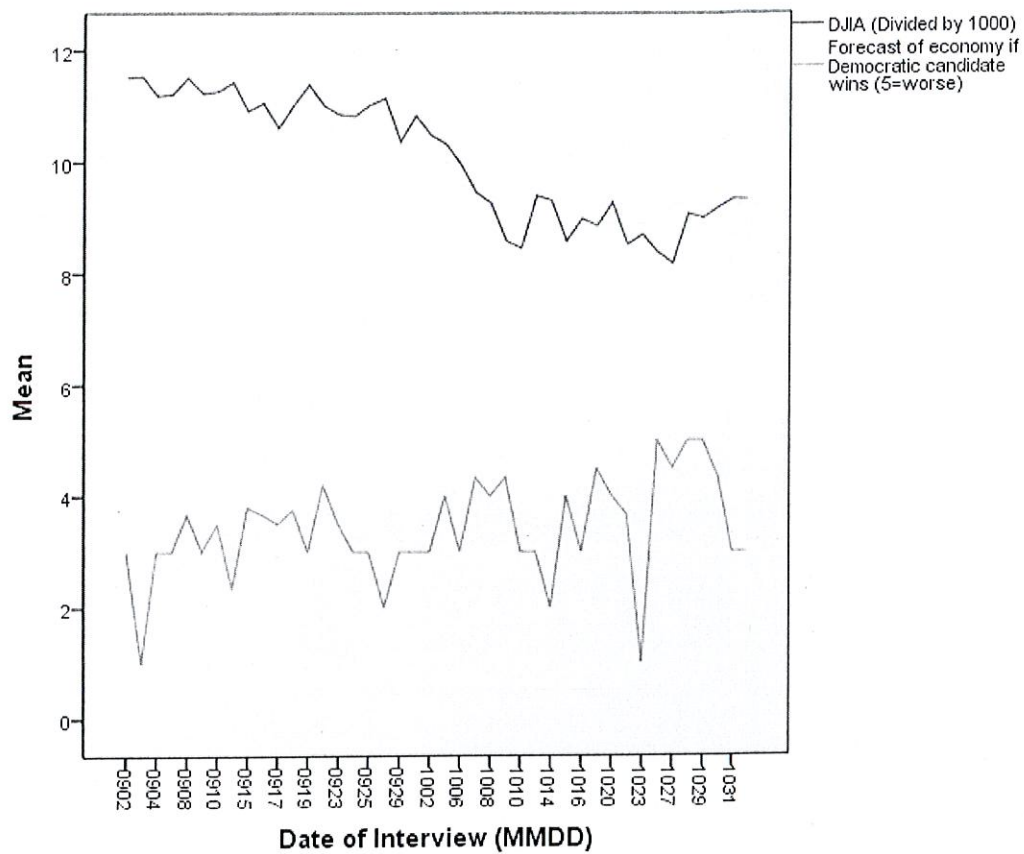
Table 1: Pearson Correlation between DJIA and variables with selected demographic groups				
Group	Economy if Republican wins	Economy if Democrat wins	Feeling Therm: Rep Pres Candidate	Feeling Therm: Dem Pres Candidate
Democrats	-0.113*	0.014	-0.001	0.005
Republicans	-0.046	-0.235**	-0.087	0.091
Has money in stocks	-0.024	-0.070	-0.045	0.005
No money in stocks	-0.106*	0.020	0.006	-0.010
Male	-0.133	-0.079	0.064	-0.073
Female	-0.071	-0.009	-0.023	0.001
Reads paper 1-3 days per week	-0.064	-0.051	-0.001	0.039
Reads paper 4-7 days per week	-0.132	0.068	-0.090	0.052
Watches TV news 1-3 days per week	-0.085	0.061	0.004	-0.002
Watches TV news 4-7 days per week	-0.073	-0.044	-0.038	0.06
Household income \$0-\$34,999	-0.062	0.027	0.039	0.014
Household income \$35,000-\$74,999	-0.049	-0.010	0.018	-0.084
Household income \$75,000-\$109,999	-0.105	0.016	0.003	0.015
Household income \$110,000+	-0.042	-0.055	-0.083	0.076
*Correlation is significant at the .05 level				
**Correlation is significant at the .01 level				

**Figure 1 – Forecast of the economy under Republican President (among Democrats)**

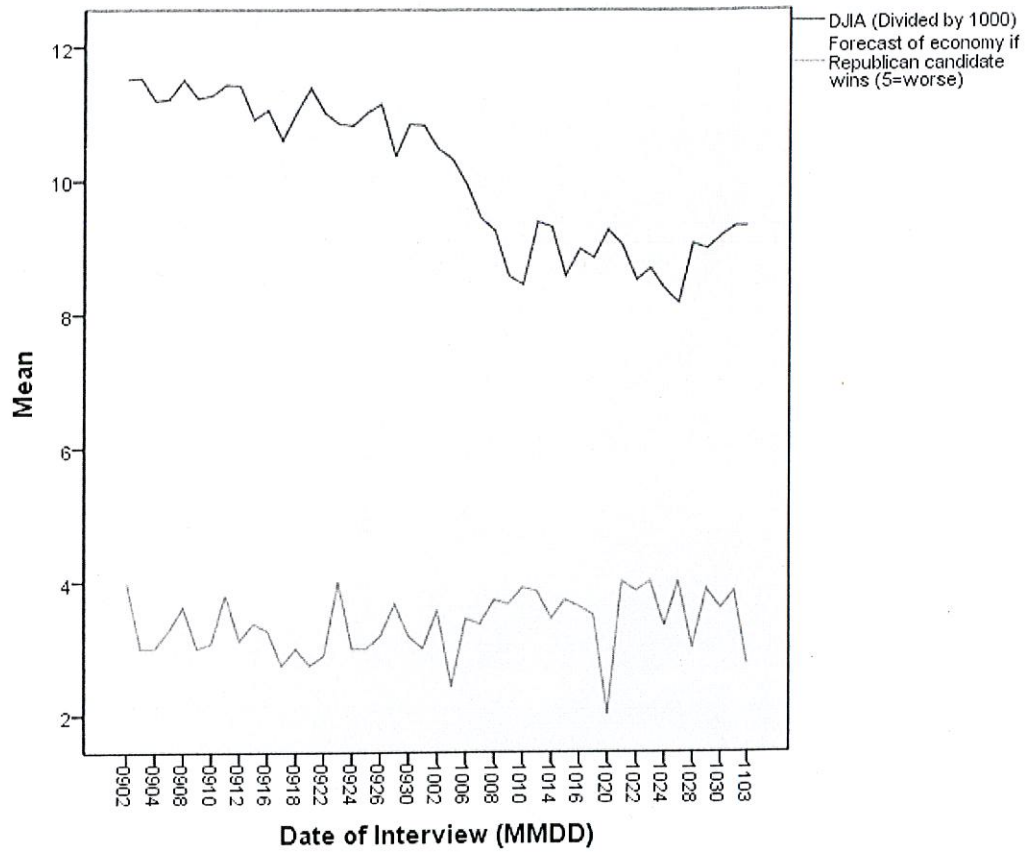




**Figure 2 – Forecast of the economy under Democratic President (among Republicans)**



**Figure 3 – Forecast of the economy under Republican President (among those with no money invested in stocks)**



**Table 2: Pearson Correlation Between Daily Change in Dow Jones Industrial Average and Daily Change in Feeling Thermometers**

Group	Change in Democrat Thermometer	Change in Republican Thermometer
All Respondents	-.011	.166
Democrats	-.015	.057
Republicans	-.029	-.071
Independents	-.227	.216



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