



Policy Forum

Wall Street Weakly, or How and When Obama Won the Presidential Race by Brian J. Gaines

At least as far back as spring 2007, some observers regarded the 2008 presidential election as a foregone conclusion. With President Bush's approval rating hovering around 35 percent and large majorities of the public unhappy about the situation in Iraq, anything but a booming economy would make the Democratic nominee's job an easy one. So ran conventional wisdom. A few dissenters noted that unpopularity of

Bush in the 2000 primaries, he had also publicly dissented on numerous high-profile issues late in the presidency, having been, among other things, a vocal critic of Bush's pre-surge Iraq policy and a conscientious objector to the use of torture on suspected terrorists.

Polls taken in mid-September in the eight states having universities in the Big-Ten conference seemed to validate

About the Author

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Table 1. Vote Intentions, Big-Ten Battleground Poll (2 waves)

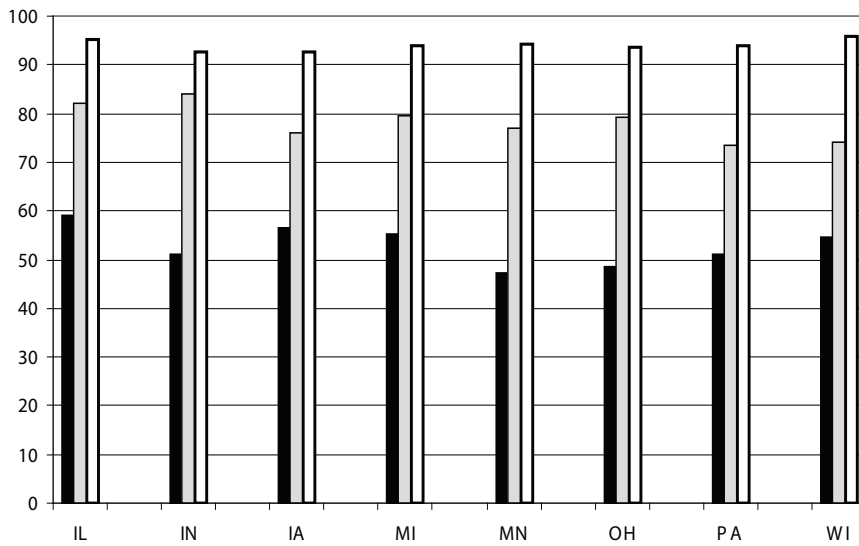
	Vote Intention September 14-17, 2008			Vote Intention (vote) October 19-22, 2008			Obama Change	McCain Change
	Obama %	McCain %	undec. %	Obama %	McCain %	undec. %	% pts	%pts
IL	53	37	6	61	32	4	+8	-5
IN	42	43	10	51	41	3	+9	-1
IA	45	45	7	52	39	6	+7	-6
MI	48	44	6	58	36	3	+7	-8
MN	45	43	8	57	38	2	+13	-7
OH	46	45	5	53	41	3	+7	-4
PA	45	45	7	52	41	3	+7	-4
WI	45	44	7	53	40	4	+8	-4

incumbent presidents does not always carry over to their parties, and that approval of Congress had fallen, not risen, since the Democrats took control, suggesting that Americans were fed up not just with Republicans, but with Washington. John McCain, moreover, seemed to be the optimal candidate to carry the GOP banner without being perceived as running for "four more years" of Bush policy. Not only had McCain opposed

the latter view. As Table 1 reveals, all of the states except Illinois (Obama's home ground, of course) were then gauged as toss-ups. With the conventions done, and both parties having enjoyed brief bounces, the heartland looked deadlocked. How was McCain doing so well? The answer was not that he was tapping into a sunny disposition in the electorate. Indeed, one dramatic finding of the poll was responses to the query,

Policy Forum is an occasional publication of the Institute of Government and Public Affairs at the University of Illinois. It examines crucial issues facing the state of Illinois.

Figure 1. Percentages of Partisan Groups Saying U.S. on the Wrong Track



Republicans are marked with solid (black) bars, independents with gray bars, and Democrats with hollow (white) bars.
 Source: Big-Ten Battleground Poll, September 14-17, 2008.

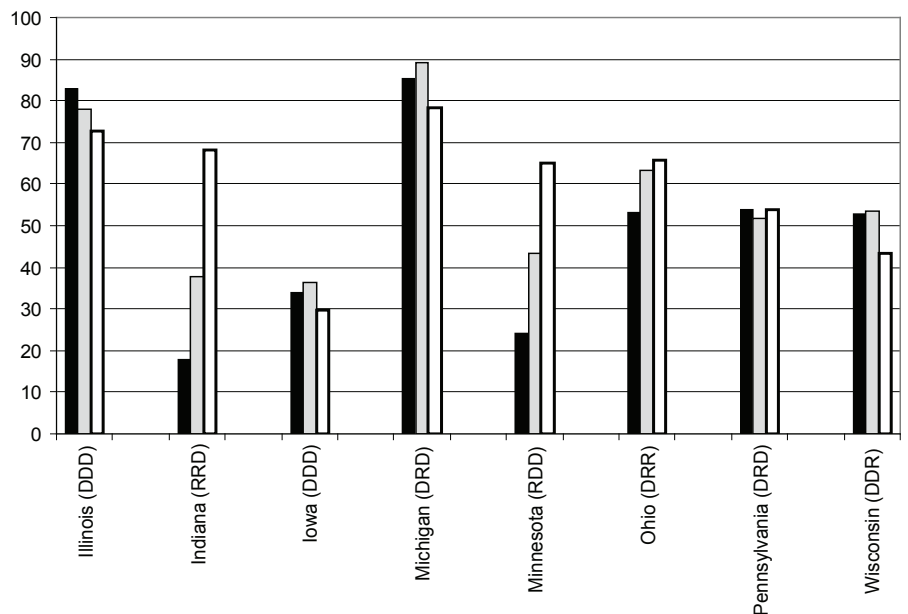
“Thinking about things in the United States, do you think things in the country are generally going in the right direction, or do you feel things have gotten off on the wrong track?” Overwhelmingly, respondents reported that the nation was on the wrong track. Many respondents seem to interpret this item as an evaluation of the incumbent president, and some loyal partisans answer accordingly. Figure 1 shows that Democrats (in white) and independents (gray) were more pessimistic than Republicans (in black), but that in most states majorities of all three groups were worried about the direction in which the country was moving.

Notably, however, some respondents in states with Democratic governors were no more optimistic about the local situation. The survey also asked the right direction/wrong track question about each respondent’s home state. Figure 2 shows there was consid-

erable variation across the region. Illinois, where Democrats controlled both chambers of the General Assembly and the governorship, was perceived to be off track by large majorities of all groups. Evaluating the direction in which politicians in Springfield were steering Illinois, independents were no more positive than they’d been about federal politicians at the helm of the national ship. Not surprisingly, Republicans were much less positive. But even Democrats were unhappy, more negative about the direction of Illinois than Republicans had been about the direction of the nation.

Iowa was the other case of a Big Ten state under unified Democratic control, but Iowans gave a starkly different, rather positive appraisal of their state’s direction. Republicans, Democrats, and independents barely dif-

Figure 2. Percentages Saying their State was on the Wrong Track



Republicans are marked with solid (black) bars, independents with gray bars, and Democrats with hollow (white) bars. Parties of Governor, Senate majority, and House majority shown in parentheses after state names.
 Source: Big Ten Battleground Poll, September 14-17, 2008.

ferred, as only about one-third said they thought the state was off-track. At the other end of the scale, Michigan, with a Democratic governor and split control of the state legislature, had the worst evaluations of the group, with near unanimity that the state is going wrong.

By contrast, Republican governors in Indiana and Minnesota presided over electorates with comparatively positive outlooks about their states. Finally, in Ohio, Pennsylvania and Wisconsin, where Democratic governors headed up divided governments, responses were mixed. In short, many Midwesterners inclined to blame the Republican nominee John McCain for policies of the Bush administration, and a sense that the country was headed awry, did not have to look far to find Democratic incumbents who could share some of the blame for bad times. For those voters not inclined to see John McCain as a clone of George Bush, Obama and McCain were both heading up parties with mixed records at the federal and state level.

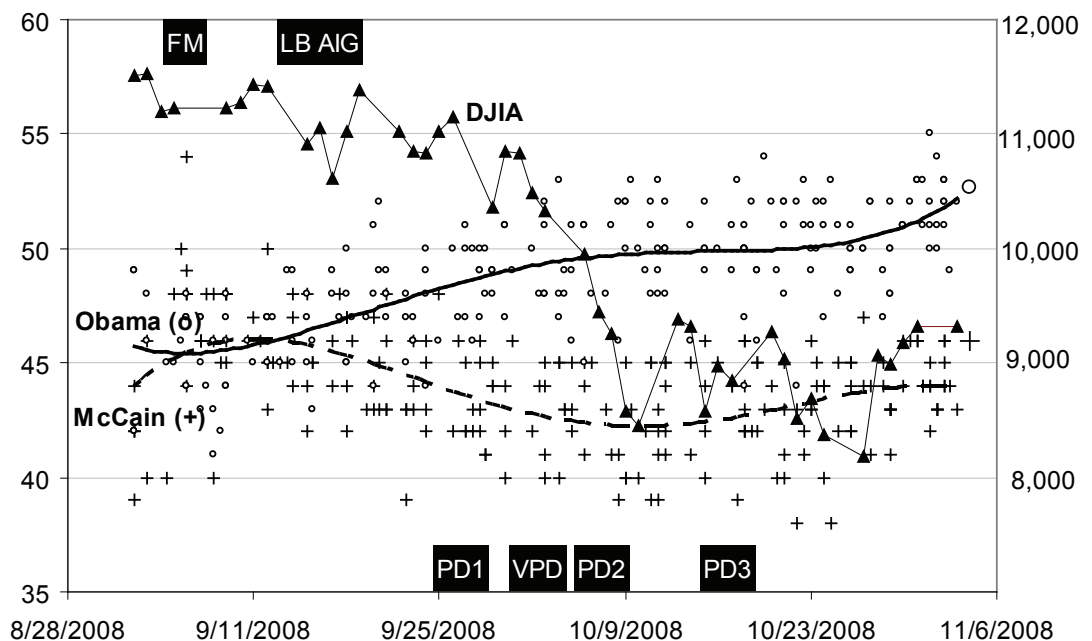
However, a second wave of polling conducted in those same states just over one month later detected large swings in vote intention to Barack Obama. Table 1 reveals that two weeks from Election Day, the entire region appeared to be safely in Obama's grasp. (Ultimately, Obama did win all eight states, though not by such large margins as that October poll predicted in all cases.) That conventional wisdom that the election was Obama's to lose seemed compelling again. So had McCain really been doomed from the start, with the September tie a mere illusion or temporary aberration?

We cannot replay history, but there is good evidence that what really knocked the wind from McCain's sails was not any inherent impossibility of a Republican succeeding George Bush, but the intervention of a major financial crisis and plummeting stock markets.

Figure 3 shifts attention to national polls, which are indicative of the trends in support for the candidates, though not directly translatable into estimates of the probability of winning the electoral vote. The figure shows the proportions declaring their intentions to vote for Obama and McCain from all available national polls over the last two months of the campaign (September 2 through November 3). Overlaid are smooth trends which average these results (without weighting for poll size or post-election accuracy). The large circle and cross indicate actual showings (based on incomplete, unofficial results). All of these points are read against the left vertical axis.

The figure also shows the daily closing values for the Dow Jones Industrial average, read against the right axis. Finally, the figure identifies several important political and economic events. On the lower axis, the dates for the three presidential debates and one vice-presidential debate are indicated. On the top axis, the dates for events that

Figure 3. As Falls Wall Street, So Falls McCain?



marked the onset of severe turmoil on Wall Street are tagged: September 7, when the federal government took over mortgage giants Fannie Mae and Freddie Mac (“FM”); September 14, when Lehman Brothers declared bankruptcy and Merrill Lynch was sold to Bank of America (“LB”); and September 17, when the federal government (via the Fed) effectively assumed the role of guarantor-owner of insurance giant AIG.

Figure 3 is suggestive, but does not tell a simple story. While the trends may show that McCain’s support slipped along with the plummeting Dow, the synchronization of the two series is not perfect. Obama was already pulling ahead of McCain as the two candidates met for their first debate, on September 26. That day was also the last time that the Dow closed above 11,000. The daily closing values mask some important within-day volatility, but it seems clear that if economic turmoil is really what moved undecided and weakly partisan voters into the donkey column in late September, what set the rush in motion was all of the stunning news from Wall Street about banking, investment and insurance companies falling like dominoes. Individual voters didn’t see their retirement savings drop 25-40 percent in value until a week or two later. An alternative account thus might read the figure as a sign that “the market” was wary of Obama winning, and as his lead widened, stocks suffered. Can we be confident about whether the financial chaos was indeed the cause and not the effect of Obama’s late surge?

Illinois respondents in the October wave of the Big Ten poll were also asked how troubled they were by the recent changes in the value of stock markets. Table 2 shows that “very troubled” was by far the most popular answer, and that the more troubled were respondents, the more they favored Barack Obama over John McCain. Indeed, McCain was the preferred candidate by those who reported being only somewhat troubled, and was favored by more than 10 points among the relatively few who said there were not troubled by falling stock market. So it is perhaps not coincidental that once share prices fell dramatically, John McCain was unable to recover in trial-heat polls.

Why did potential voters prefer Obama to McCain once economic prospects seemed gloomy? I see little reason to believe it was because of anything specific either candidate offered about how to solve the inter-connected problems of a bursting housing bubble, major financial firms failing and a sudden credit crunch. Initially, neither candidate offered many specific plans. Obama was cautious to the point of being cagey in the first presidential debate, when he declined to take any clear position on the first proposal for a bailout bill, begging off because “we haven’t seen the language yet.”

By the final debate nearly three weeks later, McCain was endorsing a plan developed by Martin Feldstein of Harvard for the federal government to buy some portion of mortgage debts that exceeded market value of the homes. Obama, in the lead, played his cards close to his chest and made no novel promises.

Table 2. Vote Intention by Attitude to Stock Market Decline

	Very Troubled	Somewhat Troubled	Not Troubled
Obama	74%	43%	35%
McCain	20%	49%	48%
unsure/other	6%	8%	16%
N	340	178	41

Source: Illinois respondents to Big-Ten Battleground Poll, October 19-22, 2008

Historically, however, the electorate tilts to the Democratic Party when the economy turns sour. There is some evidence, still contested, that Democrats tend to reduce income inequality, and Republicans increase it.¹ There is much more robust evidence that when in power, Democrats and Republicans tend to deliver different sorts of economic policies, with Democrats more focused on reducing unemployment and Republicans more focused on reducing inflation (neither party, of course, has anything like an unblemished record at dealing with its respective priority).² Over the

1 Larry M. Bartels. 2008. *Unequal Democracy: The Political Economy of the New Gilded Age*. Princeton, NJ: Russell Sage Foundation/Princeton University Press.
2 Douglas A. Hibbs, Jr. 1987. *The American Political Economy: Macroeconomics and Electoral Politics*. Cambridge, MA: Harvard University Press.

later years of the Bush administration, the public has shifted to saying that Democrats are more likely than Republicans to “keep the country prosperous,” rather than the converse.³ All such effects are marginal, and there are many Americans who see all things through partisan lenses and are convinced that their preferred party is better at all things under all circumstances. Still, based on historical patterns, the effect of a sudden economic downturn should have been to favor the Democratic candidate, probably all the more after an extended stretch of unified Republican government. And that does seem to be the way that the 2008 campaign played out.

Does this interpretation of the presidential election map into any particular policy recommendations for the incoming president? It is no secret that the Obama administration will have to make revitalizing the economy its first priority. Nearly all survey respondents are currently saying that the economy has lately gotten worse, and large majorities say they expect to be worse off in a year. Even Democrats jubilant that their side is now completely in control in Washington admit to some anxiety about short-term economic prospects. Most professional economic forecasters concur and a few Cassandras are arguing that we are entering a period that could rival the Great Depression. The public’s preference for Democrats when times are tough is not immutable. Incumbents who seem unable to cope with economic turmoil get the boot, as Democrat Jimmy Carter and Republican George H.W. Bush can attest. If Obama cannot deliver some tangible economic progress quickly, it seems likely that he will see: (a) an abbreviated political “honeymoon”; (b) a tough midterm election in 2010;

³ Compare, for instance, Gallup polls from September 2002 and September 2007: 42 percent for each party in 2002 shifted all the way to a 54 percent-34 percent Democratic advantage over that five-year period.

and/or, (c) a surly and unhappy electorate as he (presumably) seeks re-election in 2012. It is somewhat foolhardy to make long-term forecasts, so (a) is the most interesting conditional prediction. It has been typical for new presidents in their first terms to enjoy about a seven-month window of relatively high approval that seems to stem, at least in part, from a cessation of normal partisan elite-level criticism. Even George W. Bush had a typical, post-Watergate honeymoon, despite the fury felt by many Democrats over the way that the 2000 election was resolved.

Obama had extremely favorable press coverage throughout the campaign, as both the Clinton and McCain campaigns noted to their dismay, and as some journalists have acknowledged in the aftermath of voting (see, e.g., account of comments by *Time* magazine’s Mark Halperin at a USC/Politico conference, described at <http://www.politico.com/news/stories/1108/15885.html>). Elite criticism moves public opinion via press coverage; therefore, one might predict that Obama’s honeymoon will be longer and sweeter than most by virtue of unprecedented levels of adulation from the press. On the other hand, journalists are undoubtedly fickle and the public seems both anxious and impatient for some of the “change” that was the staple of Obama’s stump speeches. In that respect, he may find that quick improvements in the state of the economy become the measuring stick for his performance. It could even be true that if things begin to improve, expectations could increase commensurately, making his task harder in the long run. Barring a major security or foreign-policy development, Obama’s first test will be whether he can preside over a period in which some of those trillions of dollars in value lost by the Dow since September reappear.

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