Riding a Bull Market

How Al Gore can win the White House

By Michael P. Niemira

In an interview appearing in the May 14th issue of *The Washington Post*, Vice President Al Gore said that at this stage of the presidential campaign, the preference polls do not "matter a hoot" because the public is not focused upon the election. The University of Michigan's National Election Studies (NES) program provides some support for the vice president's view: typically about 50-60% of the public do not decide upon a presidential candidate until after the party convention.

And from a campaigning standpoint, Gore's desire to put the best possible face on things is understandable, since most polls show the vice president trailing his Republican challenger, George W. Bush. A May ABC News/*Washington Post* survey found Gore behind Bush by five percentage points, while a Fox News poll showed him lagging 40% to 44%, and a *New York Times*/CBS News poll had Bush leading Gore by 47% to 39%. Still, it might be that the vice president knows something about the *economics of voting* that the poll numbers do not now reveal.

A considerable number of studies have tried to explain presidential election outcome, partly or totally, on the basis of economic variables. In some cases, models have been reformulated over the years, especially when they failed to explain voter behavior correctly. In all of these models, though, the economic variables used were based on actual economic statistics, such as GDP, income, unemployment or inflation.

Alternatively, in 1992, I offered an election-forecasting-perceptions model based on consumers' opinions about the economy and their own financial positions. The logic for using consumer sentiment to forecast an election outcome is that *perceptions* dictate voter behavior—perceptions of the present situation and of the future, which presumably will be shaped by the president's policies.

The 1992 election provided a classic example in which consumers' perceptions of the state of the economy were more negative than the actual situation should have warranted, based on economic statistics. Similarly, a decade earlier, in May 1982 a Harris poll found that only 27% of the respondents knew inflation had fallen sharply during the previous year, while 34% erroneously thought it had risen. Since the public has only a "sense of the statistics"—correct or otherwise—this "sense" becomes more important than the statistics themselves in predicting voting behavior. Moreover, unlike economic statistics, the use of consumer sentiment data allows for variations in importance attached to unemployment, inflation, personal income and the like, without the "constraint" of a specific quantitative variable for each factor.

To test the perceptions-election hypothesis that what affects consumer sentiment determines how people vote, a simple statistical model was developed. The model was specified as the popular-vote share for the incumbent party candidate as a function of the University of Michigan's consumer sentiment index for the October prior to the election. As shown in Table 1, this model has correctly called the outcome for each presidential election since 1956.

These results support the thesis that consumer confidence surveys are a window on presidential elections. When I first reported on this model in a 1992 *Public Perspective* article, I observed that, "Interestingly enough, one of the most striking uses for consumer confidence [data] has been largely overlooked—namely, that they are one of the best predictors of presidential elections. In many respects, this should not be surprising.... It's the perception of how things are going, not the actual state of the economy, that shapes presidential outcomes."

This view has been borne out by the numerous studies that have looked at how well actual economic data predict election outcomes. The results of such prediction attempts have been mixed. The econometric models by Michael Lewis-Beck and Tom Rice and by Ray Fair, for instance, received considerable attention in early 1992. But both models predicted a sure-win for President George Bush, while the perceptions model, based on consumer sentiment, suggested otherwise. Indeed, the latter predicted a popular vote share of 37.9% for Bush; he actually received 37.5%.

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Table 1

Consumer Confidence Predicts Presidential Outcome

Year	*Incumbent Party Candidate*	*Share of Vote Predicted[1]*	*Share of Vote Actual*	*Pct. Point Prediction Error*	*Incumbent Party Prediction*	*Was the Forecast Correct?*
1956	Eisenhower (R)	59.9%	57.4%	-2.5	win	yes
1960	Nixon (R)	49.9	49.5	-0.4	lose	yes
1964	Johnson (D)	57.3	61.1	3.8	win	yes
1968	Humphrey (D)	49.8	42.7	-7.1	lose	yes
1972	Nixon (R)	53.3	60.7	7.4	win	yes
1976	Ford (R)	48.4	48.0	-0.4	lose	yes
1980	Carter (D)	39.1	41.0	1.9	lose	yes
1984	Reagan (R)	55.1	58.8	3.7	win	yes
1988	Bush (R)	53.4	53.4	-0.0	win	yes
1992	Bush (R)	37.9	37.5	-0.4	lose	yes
1996	Clinton (D)	55.2	49.2	-6.0	win	yes
2000	Gore (D)	66.0	?			

[1]Equation used for calculation: Incumbent popular vote = -17 + 0.75 x consumer confidence [October, prior to the election].

Note: 2000 prediction based on the early May 2000 Consumer Sentiment Index, University of Michigan.

It might be argued that this formulation of the perceptions model is too dependent upon economic and financial issues facing the consumer and does not *directly* account for non-economic issues, even though such issues might affect the consumers' evaluation of the future. To address this concern, I used Gallup's "most important problem" survey question ("What do you think is the most important problem facing this country today?") to assess whether non-economic issues mattered more than economic concerns in election years. Annual averages were calculated for economic and non-economic responses to the Gallup question, with the difference in the level of public concern expressed as a ratio between the two variables.

Interestingly, when various forms of these data were included in the basic model for predicting election outcomes, the non-economic variable was not statistically significant for any past election. Further, factoring non-economic concerns into the 2000 popular vote projection does not materially change the predicted outcome for this year either—a finding that lends support to the old adage that the public votes its pocketbook, with the caveat, in good times as well as bad.

Although recent polls clearly favor the GOP to win the presidential election in 2000, the consumer confidence model suggests Republicans may be premature in filling out their dance cards for the inaugural ball. Based on the early May consumer sentiment index, the model projects Al Gore as the more likely winner with 66% of the vote, *if the election were held today*. Ray Fair's latest economic model of the 2000 presidential vote—which was updated on April 28—finds a similar though less definite outcome. Using data up through the first quarter, Fair predicts a popular vote share of 50.8% for Gore—a win, but a very narrow one.

With consumer sentiment near its record high, a drop in the Michigan index from its early May reading of 110.9 to about 90 by October (the average for the index was 87.2 between January 1978 and May 2000), would produce an exceedingly close election result, along the lines projected by Fair. However, should confidence simply return to its long-term average of 87.2, only then would the balance of the election tilt to the Republicans. An exceedingly optimistic consumer is a status-quo voter, and vice versa, so poll-watchers would be well-advised to keep an eye on consumer confidence.

Endnote

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