<u>PS 389 / CICS 301</u>: Tufte, *Political Control of the Economy*

I. We start here because:

A. This is a course in ***<u>how political economy has evolved</u>*** in response to globalization of markets, *i.e.*, growing international economic integration; and **Tufte's** little book was perhaps the crucial statement of one half of "**classical" political economy**, or what was emphasized before.

B. Want begin to see *how understand political economy, meaning political control of economic policy & political management of the economy, positively*.

C. Positive Social-Scientific Theory of Political Economy:

1. Only people motive forces, so must begin by identifying the important actors in some context of interest: here, incumbents & voters in econ policymaking
2. Then we determine those actors' interests and options: Tufte uses a murder-mystery metaphor: policymakers' motives, opportunities, and weapons.

D. Conclusion, ***Tufte's Electoral-Cycles Theory***, 1 core thry of pol. mngmnt of economy that going see how rising economic integration affects.

II. Tufte's fundamental messages (*Preface to the Paperback Edition*)

A. "...to understand anything in the economy, it is necessary to understand politics. That is because the actions of politicians, the appointees of politicians, interest groups, and voters routinely and significantly determine economic policy—and, on those occasional days when policy works, economic performance" (p. xi).

B. "...despite all the horror stories about political manipulation of the economy, it is far, far better—in a democracy at least—to maintain and extend the political control over the economy rather than turn things over to [supposed technocrats]. Unlike politicians, these folks (some of whom have conducted the recent well-financed attack against the democratic control of economic policy) do not have to face the competitive rigors of the political arena" (p. xi).

1. "The single most important fact about politicians is that they are elected.
2. **The 2nd most important fact is that they usually seek re-election**" (p. xi).

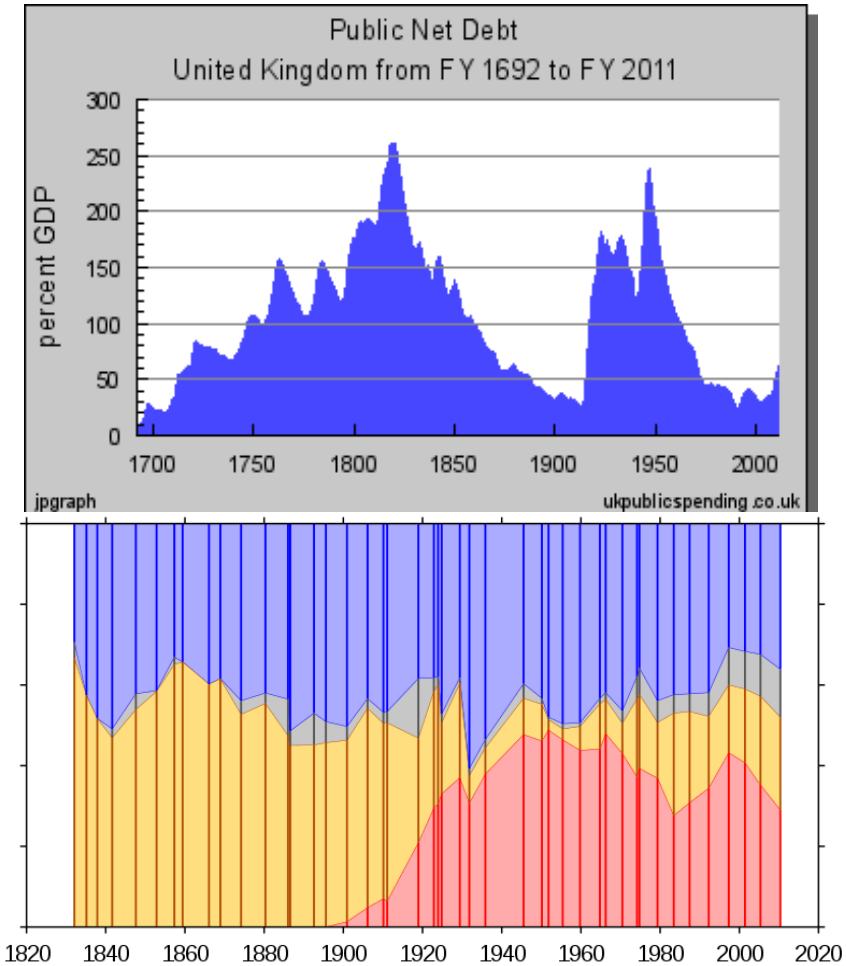
C. "To understand the economic policies and...performances of the world's capitalist democracies, it is necessary to have a political theory of economic policy" [Preface (1977), p. xiii]. Thus the book seeks to...

1. "...show how certain political variables determine macroeconomic outcomes in a systematic and predictable way..." and
2. "...provide evidence demonstrating...role of elections & political parties in deciding *who gets what, when, & how* [emph. add] in the political arena" (xiii).

D. Political Competition: "The simple fact of competition, especially when competition is informed by political ideology, explains a great deal of what goes on in the political world and, I argue, in important parts of the economic world also" (p. xiv).

Anecdotes Offering Preliminary Illustrative Rhetoric

"A government is not supported a hundredth part so much by the constant, uniform, quiet prosperity of the country as by those damned spurts which Pitt {right} used to have just in the nick of time." {Brougham {left}, 1814 (as quoted, p. 3)} {Vote shares @ bottom; Pitt's grp in orange.}



Ronald Reagan: "Are you better off now than you were four years ago?" (Asked it twice, actually, expecting different response of course, v. Carter, v. Mondale)

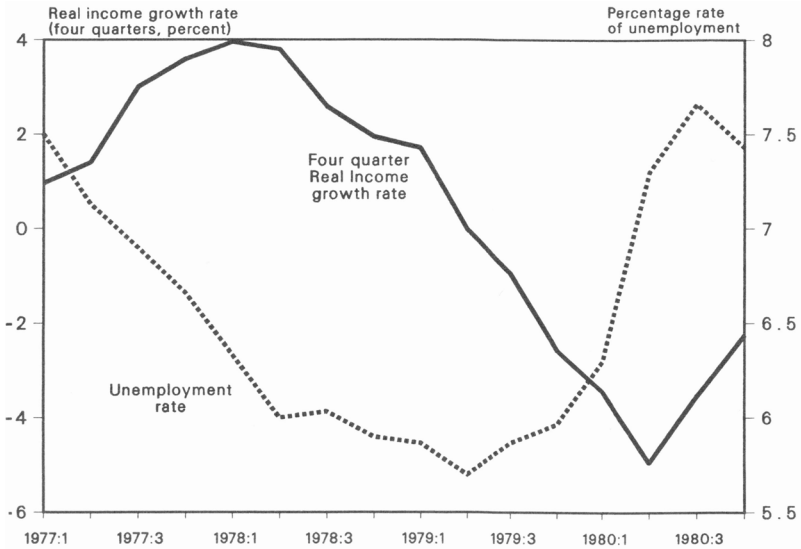


Figure 6.1 Election-cycle economics under Carter: unemployment and per capita real personal disposable income growth rates, 1977:1–1980:4.

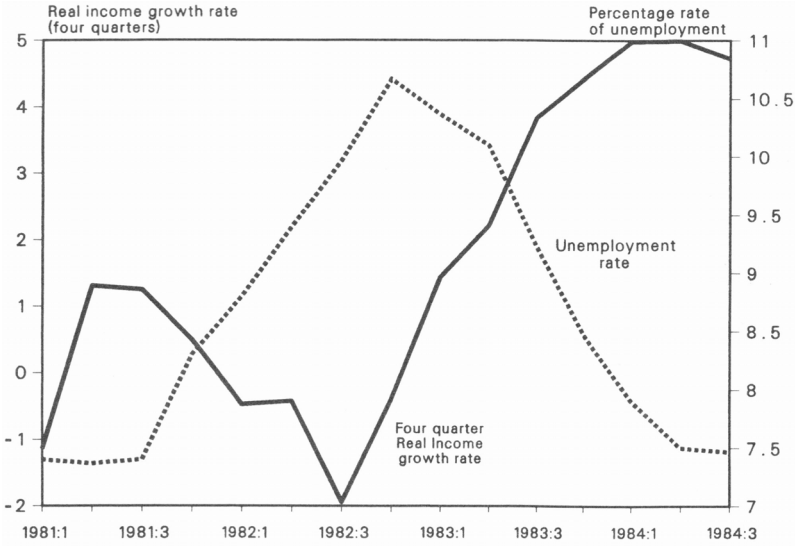
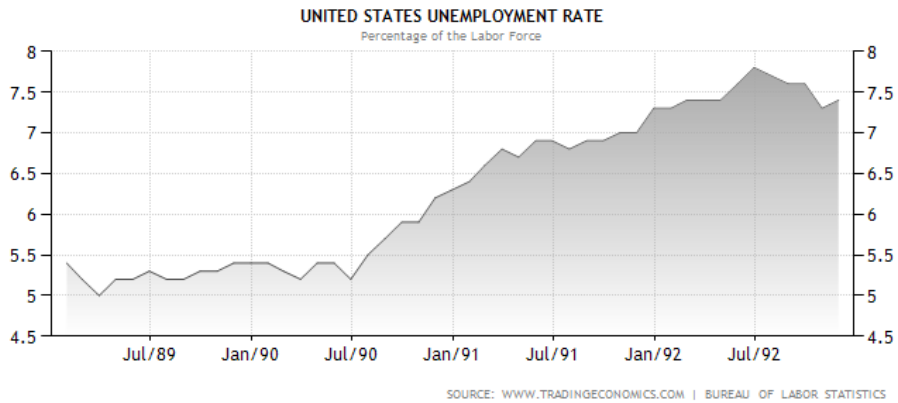
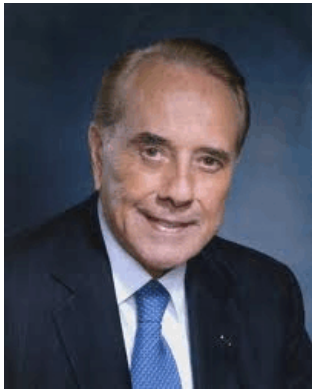


Figure 6.2 Election-cycle economics under Reagan: unemployment and per capita real personal disposable income growth rates, 1981:1–1984:3.



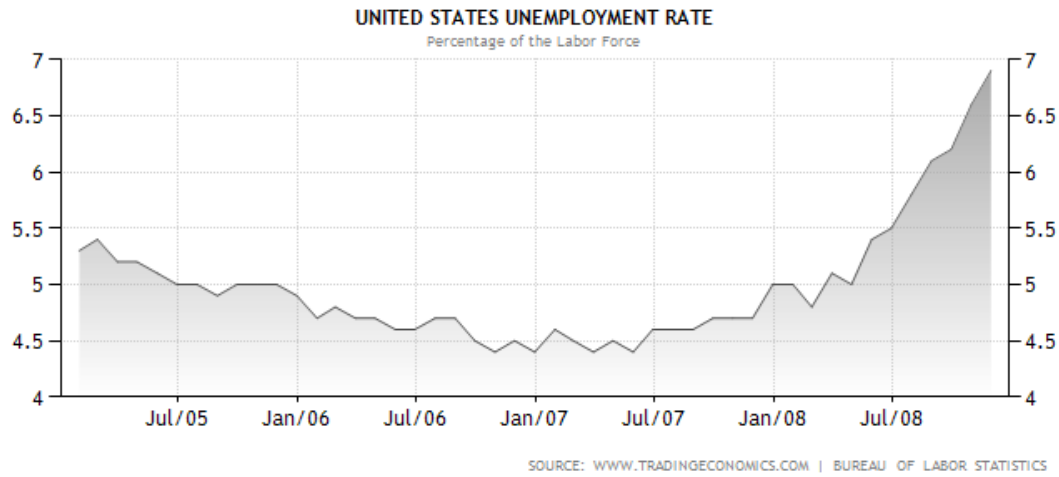
Clinton vs. Bush I: "It's the economy, stupid!"

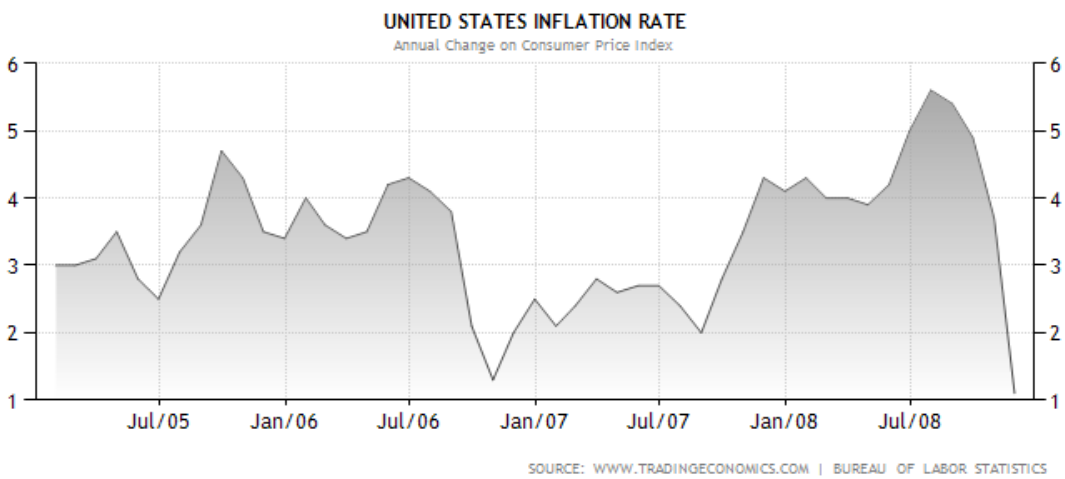


Clinton (v. Dole): repeated self & even borrowed Reagan's line.

but Bush II (v. Gore (left), &, lesser extent, v. Kerry (right))? Exceptional? [What about Obama v. McCain? (next page)]

Obama was trailing in the polls, in some polls badly, until the financial collapse hit that summer...





III. **Central Hypothesis:** "incumbents seek to determine *location* and *timing* of economic benefits in promoting the fortunes of [themselves], their party and friends" (p. 4).

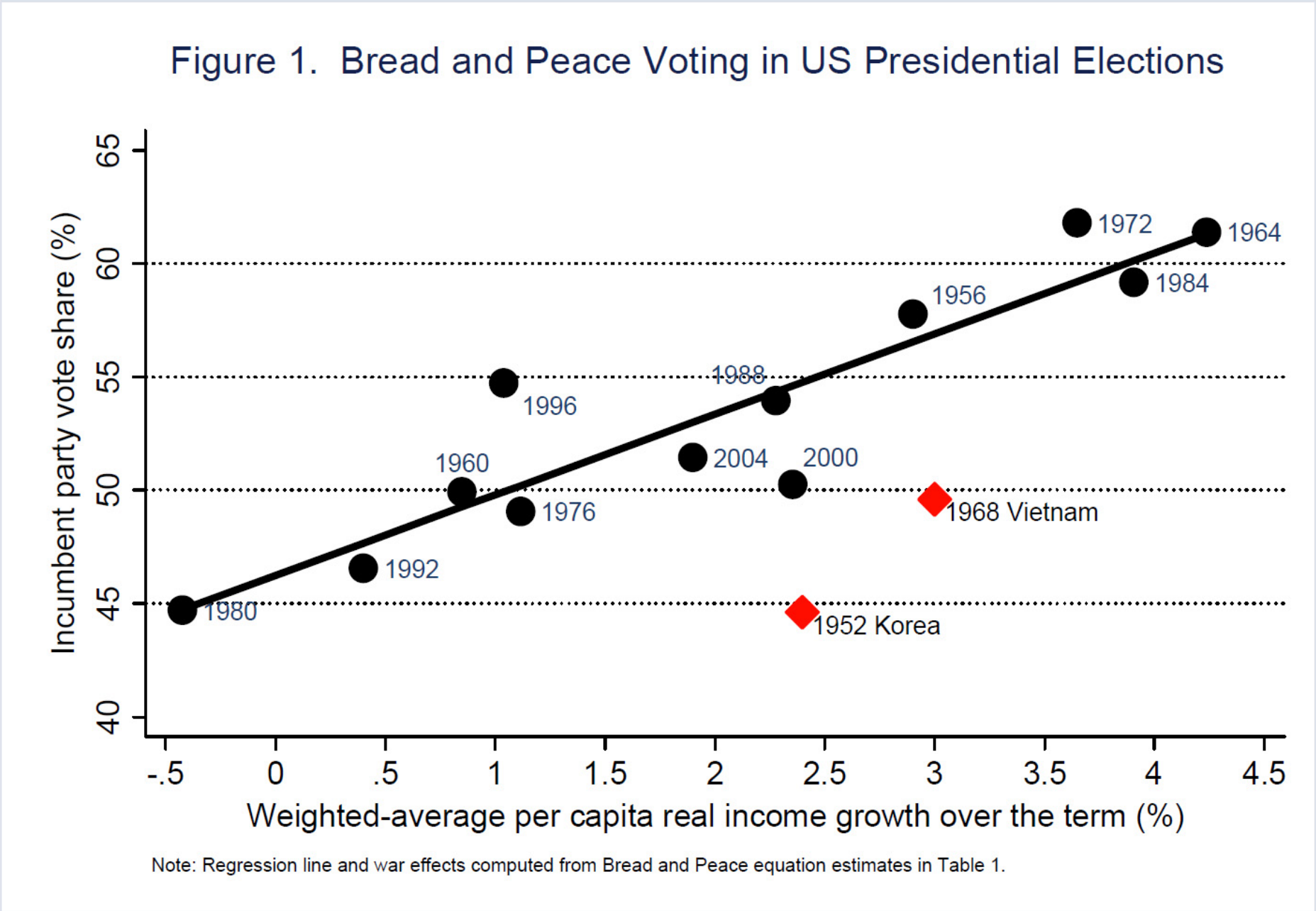
N.b., general: should apply somehow wherever incumbents contest elections…

N.b., perhaps even more general: some such mechanism should operate wherever incumbents receive political support (electoral or other) based on economy…

A. **Motive:** incumbent politicians desire re-election and believe that a booming pre-election economy will help produce it

1. "…political commonplace since…Great Depression…that the performance of the economy affects the electoral fate of the dominant party" (p.5)
2. 'Wisdom' of politicians & pundits on"pocket-book" issue = a description of the implicit theory under which politicians and their advisers seem to operate:
   a. "Economic movements in the months immediately preceding an election can tip the balance and decide the outcome of the election.
   b. Electorate rewards incumbents for prosperity and punishes them for recession.
   c. Short-run spurts in economic growth in months immediately preceding an election benefit incumbents" (p. 9).

We already saw this analysis, but we could return to it now in specific context & for more, closer interpretation:



Hibbs' "Bread & Peace" Model (2008):

$$Vote_t = \beta_0 + \beta_1 \left(\sum_{j=0}^{14} \lambda^j \Delta \ln R_{t-j} \left(1 \Big/ \sum_{j=0}^{14} \lambda^j \right) \right) + \beta_2 CumKIA_t + \varepsilon$$

- Vote is the incumbent party's percentage share of the aggregate two-party presidential vote,
- R is per capita disposable personal income (seasonally adjusted at annual rates) deflated by the Consumer Price Index, and $\Delta \ln R_t$ is the annualized quarter on quarter percentage rate of growth, $\Delta \ln R_t = \ln\left(R_t / R_{t-1}\right) \cdot 400$,[4]
- $\left(1 \Big/ \sum_{j=0}^{14} \lambda^j\right)$ is just a normalizing constant, so that β_1 registers the response of Vote to movements in the weighted-average of real income growth rates,
- CUM KIA is the cumulative number of American military personnel killed-in-action (in 1000s) in the Korean and Vietnamese civil wars during the presidential terms preceding the elections of 1952, 1964, 1968 and 1976, and
- $\beta_0 = 46.1,\ \beta_1 = 4.12,\ \lambda = 0.954,\ \beta_2 = -0.369.$

Table 1. Bread and Peace model regressions: Benchmark estimates and time-wise stability (presidential elections 1952–1996).

Model: $\text{Vote}_t = \beta_0 + \beta_1 \left(\sum_{j=0}^{14} \lambda^j \Delta \ln R_{t-j} \left(1 \Big/ \sum_{j=0}^{14} \lambda^j \right) \right) + \beta_2 \text{CUM KIA}_t$

		β_0	β_1	λ	β_2	$\bar{R}^2$	SEE
1.	Benchmark model, Eq. 1 (1952–1996)	46.1 (42.2/.00)	4.1 (7.4/.00)	0.95 (26.9/.00)	–0.37 (–5.5/.00)	.90	1.97
2.	Omitting the CUM KIA term	46.3 (20.8/.000)	2.86 (2.9/0.01)	0.82 (6.0/.00)		.54	6.24

(1) The estimated decay-rate, .95, implies:

So, e.g., last year of incumb's term worth over 2.5 times what first yr worth (.32 *vs.* .12); and last 2 yrs worth about 2× the 1st 2 (.64 *vs.* .36).

(And .95 is actually much lower decay than many other estimates, including Hibbs' own earlier ones, have found.)

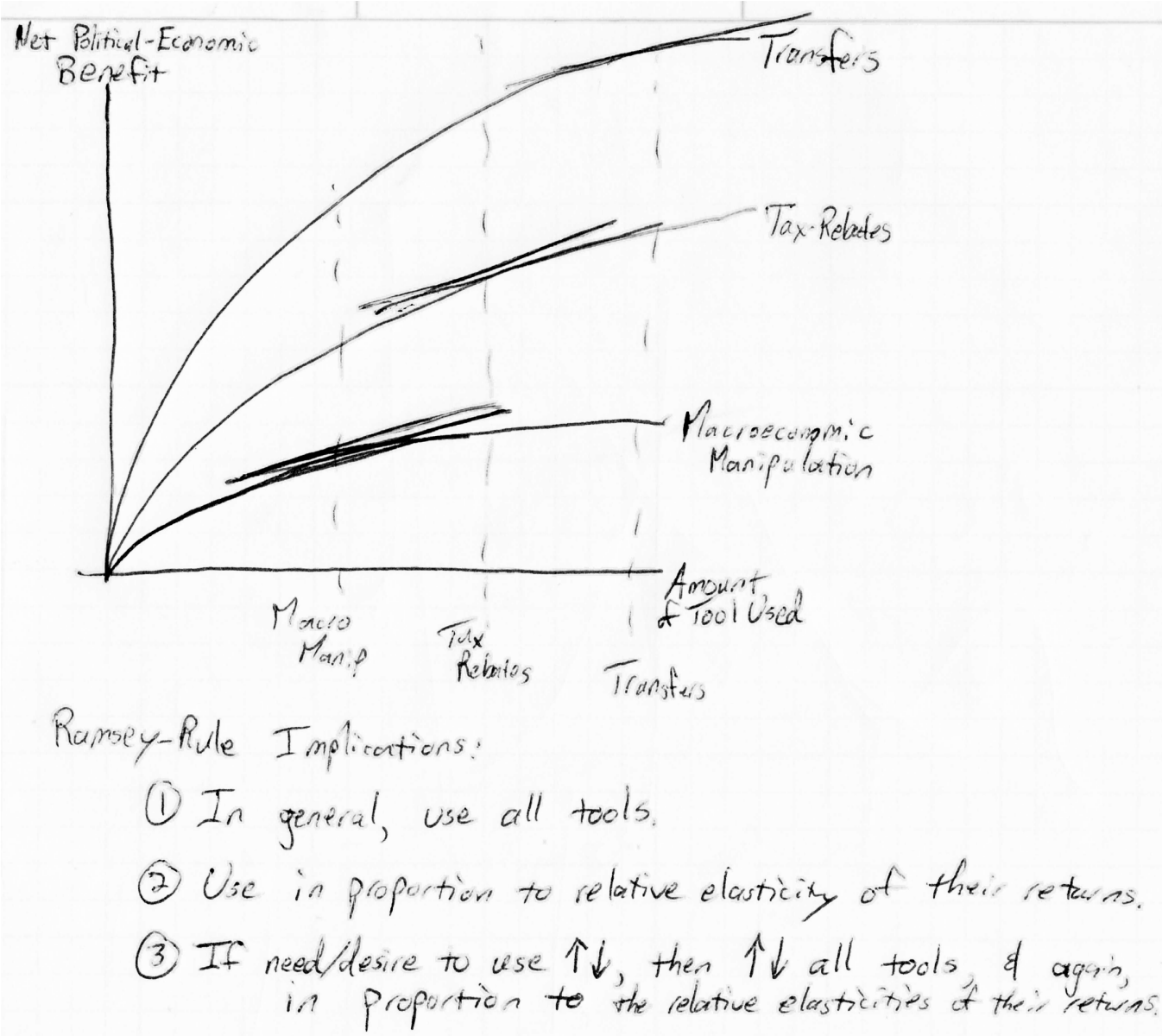
Qrtrs Ago	$.95^Q$	Weight	Cum.Wt.
0	1.00	0.086	0.086
1	0.95	0.082	0.168
2	0.90	0.078	0.245
3	0.86	0.074	0.319
4	0.81	0.070	0.389
5	0.77	0.066	0.455
6	0.74	0.063	0.518
7	0.70	0.060	0.578
8	0.66	0.057	0.635
9	0.63	0.054	0.690
10	0.60	0.051	0.741
11	0.57	0.049	0.790
12	0.54	0.046	0.836
13	0.51	0.044	0.880
14	0.49	0.042	0.922
15	0.46	0.040	0.962
16	0.44	0.038	1.000

B. Instruments ("weapons"):

1. Given goal of producing upturns or, more generally, benefit-delivery or cost-removal, timed around Election Day (i.e., given motive in propositions 2a-c), policymakers need instruments that are...
   a. Easy to initiate and implement quickly.
   b. Yields clear, immediate, & attributable (by whom? to whom?) economic benefits.
      (1) to large numbers of voters,
      (2) or at least some specific large grp voters [Clinton's last State of Union, & tons attention since: "Save social security first!"; Bush's tax cuts; Obama's 'shovel-ready projects']
2. Might summarize as "***Tufte's 5 -ables***"; ideal electioneering instrument is:
   a. **Targetable** (by policymakers, to voters);
      (1) N.b., *how* to target, broadly or narrowly, e.g., may depend on how policymakers best distribute benefits to win elections, & so may vary by electoral systems, *inter alia*.
   b. **Timeable** (i.e., on-time delivery from policymakers to voters)
   c. **Manipulable** (by policymakers)
   d. **Palpable** (i.e., palpably effective, to voters)
   e. **Attributable** (by voters, to (the correct) policymakers)
3. That suggests weapons of choice will be things like...

4. That suggests weapons of choice will be things like...
   a. *Transfer payments* (SS, veteran's benefits, other direct mailing of checks from government to populace).
   b. Tax cuts (and delayed tax increases, i.e., perhaps, deficits).
      (1) Note recent innovation: tax-cut rebates paid in advance!
   c. Certain kinds of spending plans, esp. public works (and delayed spending cuts).
   d. Increases (or delayed decreases) in public employment.
5. Suggests also that increases in *growth of real disposable income* may serve as reasonable summary indicator that some "electioneering" was afoot.
   a. {Define *real disposable income*.}
   b. {Why does Tufte argue it makes a plausible summary indicator?}
   c. {Why might we want summary indicator? Why not specific policies individually?}
   d. **{...an aside on *Ramsey Rule*... (next slide, if time)}**
   e. {How well does real disposable income *per se* do on Tufte's *-ables*?}

IV. Three more things Tufte accomplishes in Chs. 1-2 left for today (1/23/12): Evidence for Electoral Cycles in U.S.; Complications: Context-Conditional Cycles; Arguments & Evidence *Kyphotic Policy*



Ramsey Rule for *Electioneering*:

* Incumbent policymakers have lots of tools for trying to boost approval around election time.

* They should use all of them. We should see electoral cycles in all tools, and/but:

* They should use the ones best suited to electioneering (Tufte's *–able's*) most.

* As need/desire to *electioneer* rises or falls [like when?], all tools will be used more/less.

* As need/desire to *electioneer* rises or falls, the best (least useful) tools will see their use rise/fall most (least).

* Also implies: if new tool added, it is used, & so, for fixed need/pref, use others ↓ in proportion their relative utility. Conversely, if tool removed, all others' use ↑ to compensate, again in proportion their relative net utility.

* Similarly, if relative-utility profile of one tool improves/worsens (↑↓), its use ↑↓ accordingly, & use others ↓↑ in relative proportion to compensate.

V. **Basic Outline of the Theory**: *Motive, Opportunity, Weapons*

A. **Motive:**

1. Policymakers desire to retain office; i.e., incumbents desire re-election
2. Voters & other political actors (myopically) reward good econ performance (experience, feeling) & punish bad with electoral support or its denial

B. **Opportunity:** Policymakers…

1. …control some policies,
2. …that can affect voters' & other key actors' (perceptions of) econ experience,
3. …for which voters' & other actors' can & do credit/blame incumbents.

C. **Weapons** [discussed above desiderata in policies for electioneering: *Tufte's 5 "–ables"* (n.b., that's my term, my summary his arg's, not his)]

D. **Conclusion:** ⇒ **<u>Electoral Cycles</u>:** policymakers *electioneer*, i.e., they manipulate policies to produce perceived economic upturns & deliver benefits before elections and obscure or delay until after elections any economic downturns & costs.

E. Preliminary Evidence of electoral cycles...

1. ...from history of elections and ***economic accelerations in 27 democracies***, 1961-72 [Table 1-1, p. 12].

   a. [By the way: 19 of 27 accelerate (growth rate increases) =>

   b. p(19 or more accelerates | 27 independent 50-50 coin tosses)=.026]

ASIDE: in excel...

=BINOMDIST(y,n,p,{1,0})

y=successes, n=trials, p=p(success), {1,0}={cdf,pdf}

	Percentage of years in which rate of growth of real disposable income increased				*Did acceleration in real income growth occur more often in election years compared to years without an election?*
	Election years	*N*	*Years without elections*	*N*	
Australia	75%	4	29%	7	yes
Austria	25%	4	86%	7	no
Belgium	67%	3	63%	8	yes
Canada	100%	5	57%	7	yes
Chile	50%	2	44%	9	yes
Costa Rica	100%	2	50%	8	yes
Denmark	25%	4	43%	7	no
Finland	67%	3	50%	8	yes
France	60%	5	33%	6	yes
Germany	33%	3	38%	8	no
Iceland	33%	3	75%	8	no
India	50%	2	43%	7	yes
Ireland	67%	3	63%	8	yes
Israel	67%	3	50%	8	yes
Italy	33%	3	50%	8	no
Jamaica	100%	2	44%	9	yes
Japan	100%	4	29%	7	yes
Luxembourg	100%	2	56%	9	yes
Netherlands	50%	4	57%	7	no
New Zealand	75%	4	43%	7	yes
Norway	100%	2	33%	9	yes
Philippines	60%	5	67%	6	no
Sweden	67%	3	50%	8	yes
Switzerland	67%	3	50%	8	yes
United Kingdom	67%	3	38%	8	yes
United States	83%	6	40%	5	yes
Uruguay	33%	3	50%	8	no

2. ...from electoral history of ***real disposable income in US*** {Figure 1-1, p. 16}

a. 8/15 elect yrs. v. 6/14 non: real-disp-inc-*pc* growth accelerates, 8/11 if exclude Ike

(1) *That's p ≈.30 (pr of 9 or more of 15 50-50s) with Ike; p ≈.033 without him... {see Fig. 1-1}*

(2) {Was Eisenhower exceptional? {see table at bottom-right, from p. 18: p≈.026}

(a) Tufte tries maintain throughout that Ike supposedly exceptional in strident fiscal & monetary discipline and in thinking voters were also& should be excluded (& notes Ike's exceptionalism did not take root in party or among pol's more gen'ly, perhaps b/c Repub's '54, '58, & '60 losses partly attrib. to these stances).

(b) {What about *political climate* of times, which also mentioned in this context? How could we *systematically* incorporate incumbent beliefs &/or political climate?}

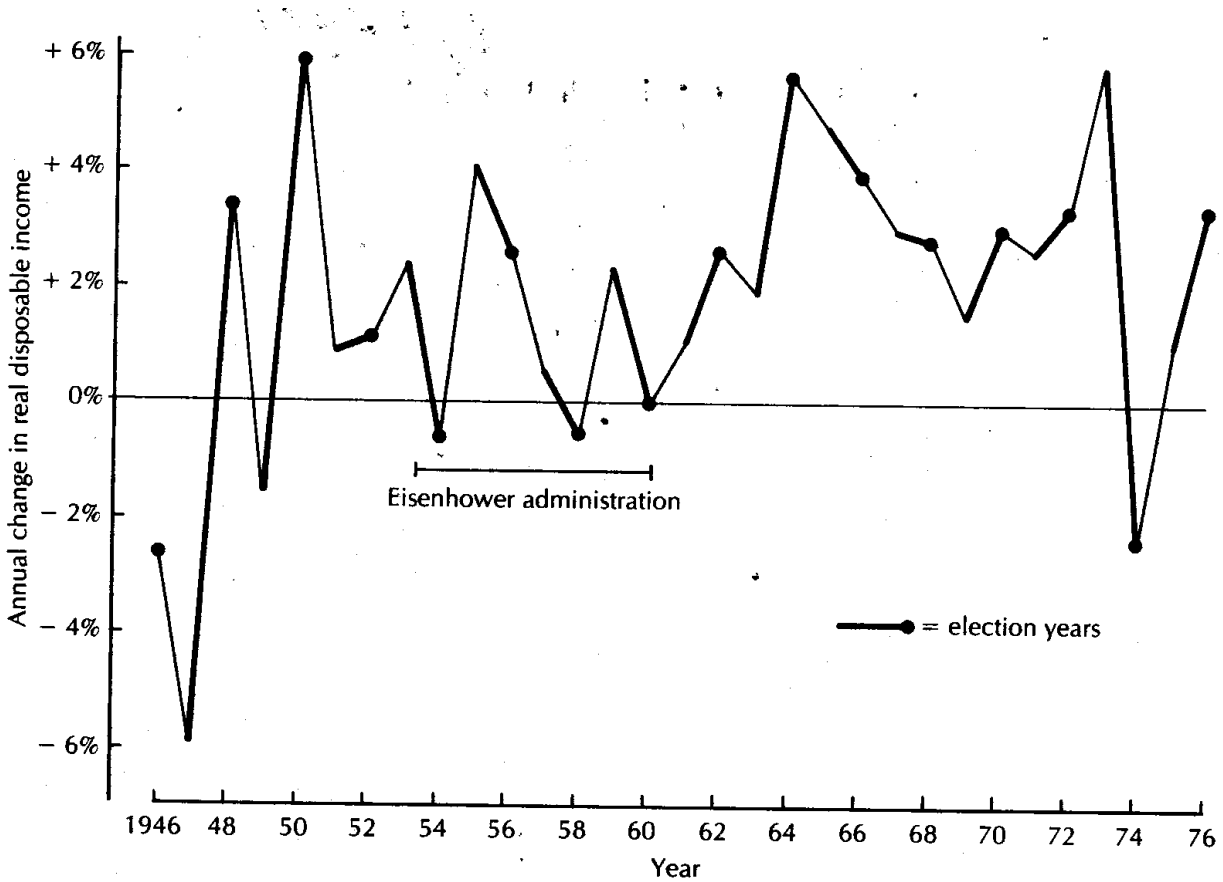


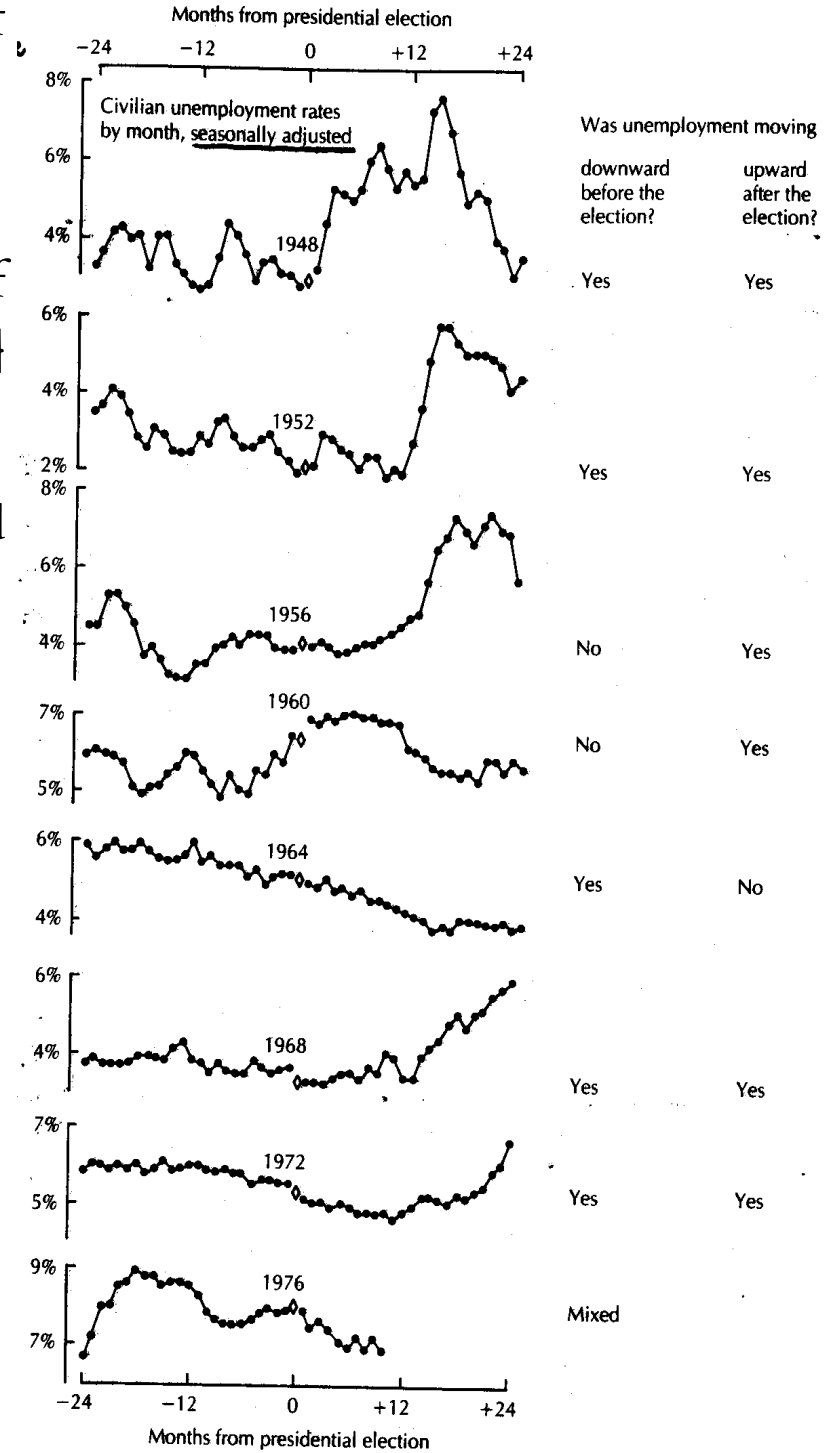
FIGURE 1-1
YEARLY CHANGES IN REAL DISPOSABLE INCOME PER CAPITA, 1946-1976

	Number of election years in which growth in real disposable income	
	accelerated	decelerated
nistration	0	4
ions	8	3

3. ...from the political history of ***unemployment in the US***

a. UE_{t-12} to UE_{t-18} > UE at election, t_0, in 6 of 8 presidential elects ($p \approx .144$) {Fig1-2,p. 20}

(1) (a small side-note about seasonally adjusted data in this context...)



b. Evidence from purported trade-off between UE and INF {Table 1-2, p. 22}; {aside: probability independent (from 1-way ANOVA) ≈ 0.037}

TABLE 1-2

INFLATION, UNEMPLOYMENT, AND PRESIDENTIAL ELECTIONS, 1946-1976

Yearly change in unemployment rate and inflation (real GNP deflator):	*Presidential election years*	*All other years*
less unemployment and less inflation	50%	9%
less unemployment, but more inflation	13	30
less inflation, but more unemployment	38	43
more inflation and more unemployment	0	17
	101% (8)	99% (23)

4. ...from content analysis of US presidents' ***State of U addresses*** 1946-69:
   a. Social-welfare & allocative policies #2 issues (behind foreign pol); Rises over 1st term, becomes dominant issue in 4th yr, lower in 2nd term (for.-pol. emph opposite)
5. ...from stock and financial markets: Evidenced that markets respond to...
   a. ...changes election-result forecasts (Herron et al. 1999 on '92 election; Leblang & Mukerjee 2004 on the 2000 election-night results).
   b. ...changes government-collapse forecasts (Bernhard & Leblang 2006).
6. Studies of cycles elsewhere mentioned by Tufte:
   a. Israel (from Ben-Porath 1975):
      (1) 8 devaluations '52-74; none closer than 18 months before an election.
      (2) In '73, income-tax reduction & value-added tax-hike proposed April, w/ elections expected in November. Former implemented pre-, latter delayed until post-.
      (3) 5 of 6 elections saw per-cap consumption increase pre-elect. +7.4% pre- vs. +2% post. Per cap income similar: +7.9% pre-, +3.7% post-. (averages).
   b. Philippines (from Averch et al. 1971):
      (1) Pub works, pub jobs, etc., in "biennial lurch"
      (2) Budget: Deficit in 6/6 election years; surplus in 5/5 non-elect.
   c. [Regularity/predictability, magnitude electoral cycles in established & developed dem's vs. young, insecure, underdeveloped dem's?]

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C. **Weapons** [discussed above desiderata in policies for electioneering: *Tufte's 5 "–ables"* (n.b., that's my term, my summary his arg's, not his)]

D. **Conclusion:** ⇒ **<u>Electoral Cycles</u>:** policymakers *electioneer*, i.e., they manipulate policies to produce perceived economic upturns & deliver benefits before elections and obscure or delay until after elections any economic downturns & costs.

VII. Some complications of base theory: Context-Conditional Electoral-Cycles {Points for further discuss if time & inclination}

A. Economic-policy control not necessarily unified in single policymaker

1. {Examples?}
2. {Implications?}

B. Degree of policymaker discretion, control, & maneuverability of policy, efficacy of policy, varies from policy to policy, situation to situation.

1. {How so?}
2. {So what?}

C. Endogenous election-timing

1. {Define *endogeneity*} {Define *endogenous election-timing*}
2. Are dissolutions more easily timed to coincide w/ expansions or *vice versa*?
3. Now what will we expect? How should countries with endogenous election-timing systematically differ from those with exogenous.

D. {Note on 'rational expectations' in this context.

   a. Rational-expectations economics & real-outcome electoral cycles.

   b. Rational-expectations politics & endogenous election timing.}

E. To attempt to manipulate the economy may be politically costly (p. 23)

   1. {How so? What might be costly about it? (At least two things)}

   2. {What does this imply re: electoral cycles? (Related to point F below, e.g.)}

F. Expected closeness of coming election

   1. {why & how should this matter?}

   2. {A note on costliness of manipulation. How connected?}

G. Political stakes involved in economic manipulation varies across elections

   1. {For example? What would this imply?}

   2. {What does Tufte focus on in this regard?}

   3. {Other considerations we should take into account?}

   4. Evidence on relationship b/w stakes & growth real disp inc *per cap* {T1-3:p25}

TABLE 1-3

ANNUAL CHANGE IN REAL DISPOSABLE INCOME PER CAPITA IN RELATION TO THE POLITICAL COMPLEXION OF THE YEARS, ALL POSTWAR ADMINISTRATIONS EXCEPT EISENHOWER'S

	No election	*On-year, incumbent president not seeking re-election*	*Midterm election*	*On-year, incumbent president seeking re-election*
1946			−2.6%	
1947	−5.9%			
1948				3.4%
1949	−1.5%			
1950			5.9%	
1951	0.9%			
1952		1.1%		
1961	1.0%			
1962			2.6%	
1963	1.9%			
1964				5.6%
1965	4.8%			
1966			3.9%	
1967	3.0%			
1968		2.8%		
1969	1.5%			
1970			3.0%	
1971	2.6%			
1972				3.3%
1973	5.9%			
1974			−2.3%	
1975	1.0%			
1976				3.3%
Median amount	1.5%	2.0%	2.8%	3.4%

Strength of the evidence is, again, not overwhelming, actually, but some signs that at least on-year elections with incumbent president seeking re-election are more likely to exhibit notably higher (+2.5%) real-disposable-income-*per-capita* growth than non-election years.

Year	RpcDisplncGrow	OnNoIncumb	Midterm	OnIncumb
1946	-2.6	0	1	0
1947	-5.9	0	0	0
1948	3.4	0	0	1
1949	-1.5	0	0	0
1950	5.9	0	1	0
1951	0.9	0	0	0
1952	1.1	1	0	0
1961	1	0	0	0
1962	2.6	0	1	0
1963	1.9	0	0	0
1964	5.6	0	0	1
1965	4.8	0	0	0
1966	3.9	0	1	0
1967	3	0	0	0
1968	2.8	1	0	0
1969	1.5	0	0	0
1970	3	0	1	0
1971	2.6	0	0	0
1972	3.3	0	0	1
1973	5.9	0	0	0
1974	-2.3	0	1	0
1975	1	0	0	0
1976	3.3	0	0	1

Regression Output:			
Constant		1.38	
Std Err of Y Est		2.93	
R Squared		0.10	
No. of Observations		23	
Degrees of Freedom		19	
	OnNoIncumb	Midterm	OnIncumb
X Coefficient(s)	0.57	0.37	2.52
Std Err of Coef.	2.25	1.49	1.71
t-statistic	0.25	0.25	1.47
p-level	0.40	0.40	0.08

Year	RpcDisplncGrow	OnNoIncumb	OnIncumb
1946	-2.6	1	0
1947	-5.9	0	0
1948	3.4	0	1
1949	-1.5	0	0
1950	5.9	1	0
1951	0.9	0	0
1952	1.1	1	0
1961	1	0	0
1962	2.6	1	0
1963	1.9	0	0
1964	5.6	0	1
1965	4.8	0	0
1966	3.9	1	0
1967	3	0	0
1968	2.8	1	0
1969	1.5	0	0
1970	3	1	0
1971	2.6	0	0
1972	3.3	0	1
1973	5.9	0	0
1974	-2.3	1	0
1975	1	0	0
1976	3.3	0	1

Regression Output:			
Constant		1.38	
Std Err of Y Est		2.86	
R Squared		0.10	
No. of Observations		23	
Degrees of Freedom		20	
		EleNoInc	OnIncumb
X Coefficient(s)		0.42	2.52
Std Err of Coef.		1.33	1.67
t-statistic		0.32	1.51
p-level		0.38	0.07

Year	PC INC*	Change	Election Type	No Election	On Year, No Re-Election	Mid-Term Election	On Year, Re-Election
1976	$23,611	-	-	0	0	0	0
1977	$24,450	3.552408	0	1	0	0	0
1978	$25,542	4.467792	2	0	0	1	0
1979	$26,051	1.990251	0	1	0	0	0
1980	$25,675	-1.44162	3	0	0	0	1
1981	$26,070	1.537144	0	1	0	0	0
1982	$25,321	-2.87313	2	0	0	1	0
1983	$26,224	3.566512	0	1	0	0	0
1984	$27,866	6.262555	3	0	0	0	1
1985	$28,763	3.218893	0	1	0	0	0
1986	$29,486	2.512834	2	0	0	1	0
1987	$30,158	2.280601	0	1	0	0	0
1988	$31,114	3.17005	1	0	1	0	0
1989	$31,923	2.599191	0	1	0	0	0
1990	$32,157	0.732884	2	0	0	1	0
1991	$31,656	-1.55852	0	1	0	0	0
1992	$32,279	1.968576	3	0	0	0	1
1993	$32,765	1.505513	0	1	0	0	0
1994	$33,684	2.804865	2	0	0	1	0
1995	$34,122	1.301208	0	1	0	0	0
1996	$34,989	2.539935	3	0	0	0	1
1997	$36,112	3.210759	0	1	0	0	0
1998	$37,247	3.141842	2	0	0	1	0
1999	$38,599	3.630479	0	1	0	0	0
2000	$39,750	2.982264	1	0	1	0	0
2001	$39,769	0.04803	0	1	0	0	0
2002	$40,108	0.85039	2	0	0	1	0
2003	$40,769	1.649984	0	1	0	0	0
2004	$41,792	2.507982	3	0	0	0	1
2005	$42,681	2.127439	0	1	0	0	0
2006	$43,332	1.525426	2	0	0	1	0
2007	$43,726	0.909843	0	1	0	0	0
2008	$43,178	-1.25404	1	0	1	0	0
2009	$41,313	-4.31855	0	1	0	0	0
2010	$42,189	2.120959	2	0	0	1	0
2011	$42,448	0.613928	0	1	0	0	0

	No Election	On Year, No Re-Election	Mid-Term Election	On Year, Re-Election	Total
1977	3.55				
1978			4.47		
1979	1.99				
1980				-1.44	
1981	1.54				
1982			-2.87		
1983	3.57				
1984				6.26	
1985	3.22				
1986			2.51		
1987	2.28				
1988		3.17			
1989	2.6				
1990			0.73		
1991	-1.56				
1992				1.97	
1993	1.51				
1994			2.8		
1995	1.3				
1996				2.54	
1997	3.21				
1998			3.14		
1999	3.63				
2000		2.98			
2001	0.048				
2002			0.85		
2003	1.65				
2004				2.51	
2005	2.13				
2006			1.53		
2007	0.91				
2008		-1.25			
2009	-4.32				
2010			2.12		
2011	0.61				
Average	**1.55**	**1.63**	**1.70**	**2.37**	***1.71***
Median	**1.82**	**2.98**	**2.12**	**2.51**	***2.12***

Election Types:

0	No Election	2	Mid Term
1	On year, inc not seeking re-el.	3	On, inc seeks re-el.

Data From: ERS International Macroeconomic Dataset

*In 2005 Dollars

Dr. Mathew Shane

Model with All Three Types of Elections:

Regression Statistics	
Multiple R	0.134
R-Squared	0.018
Adj. R-Sq.	-0.077
S.E.R.	2.160
Observations	35

	Coeff.	*Std.Err.*	*t Stat*	*P-value*
Intercept	1.548	0.509	3.041	0.005
On, No Reelect	0.085	1.347	0.063	0.950
MidTerm Elect	0.150	0.882	0.170	0.866
On, Reelect	0.819	1.092	0.750	0.459

Model with Just On-Year, Incumbent Seeking Re-elect:

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	Coeff.	*Std.Err.*	*t Stat*	*P-value*
Intercept	1.602	0.382	4.188	0.000
On, Reelect	0.766	1.012	0.757	0.454

[Testing whether projector does better with embedded png created from pdf: this slide... (next).]

* RGDPpc growth over last 35yrs has still been as Tufte would predict: On-Year w/ Incumbent > Midterm > On-Year w/o Incumbent > Non-election year, by averages. By median, it's a little different but basically support: On-Year w/o Incumbent> On-Year w/ Incumbent > Midterm > Non-election year. However, statistically, the evidence has not been as strong in support of these patterns: differences have become "insignificant".

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[...or snapshot-copied from pdf (this slide).]

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VIII. Credit-Taking, Kyphosis, & 1972 case-study {Figs2.1-7,pp.32-41}

A. Credit-Taking

1. "The quickest way to {accelerate} real disposable income is to mail more people larger checks—that is, for transfer payments to increase" (p. 29).
   a. 9 of 13 SS increases (9/1950 to 6/1976) in even-number yrs ($p \approx .133$; Table 2-1)
   b. 8 of 9 within-year SS increases were in even number yrs ($p \approx .019$; Table 2-1)
   c. Since 1954, notice of raise comes w/ Presidential message & name (Fig. 2-1)
   d. Within-year increases usu. Sept. (4 of 6 ⇒ $p \approx .0000$ in pre-COLA era) ⇒ Benefit increases in Sept., Taxes in Jan. (Fig. 2-2)
   e. Congress enacts automatic (COLA) increases in after the 1972 exorbitance
2. {Again, note recent innovation of mailing rebates from tax cuts in advance.}

TABLE 2-1

EFFECTIVE DATE OF BENEFIT INCREASES IN SOCIAL SECURITY

Within-year increase		*Beginning-of-year increase*	
Date	*% increase*	*Date*	*% increase*
September 1950	About 77% over benefits in 1939 Act	January 1959	7%
		January 1965	7%
September 1952	12.5%	January 1970	15%
September 1954	13%	January 1971	10%
February 1968	13%		
September 1972	20%		
March-May 1974	7%		
June 1974	4%		
June 1975*	8%		
June 1976*	6.4%		

6 of 10? not signif.

diff.

* Increases of June 1975 and June 1976 resulted from new provisions (of 1972 Social Security Act) for automatic cost-of-living increases.

9 of 13 SS increases (9/1950 to 6/1976) in even-number years ($p \approx .133$; Table 2-1)

[but only 6 or 7 of 10 noting change to "automatic" COLA (*.377* or *.172*)]

8 of 9 within-year SS increases were in even number years ($p \approx .019$; Table 2-1)

[100% if exclude auto-COLA era]

Higher social security payments

Your social security payment has been increased by 20 percent, starting with this month's check, by a new statute enacted by the Congress and signed into law by President Richard Nixon on July 1, 1972.

The President also signed into law a provision which will allow your social security benefits to increase automatically if the cost of living goes up. Automatic benefit increases will be added to your check in future years according to the conditions set out in that law.

U.S. Department of Health, Education, and Welfare
Social Security Administration
DHEW Publication No. (SSA) 73-10322
October 1972

FIGURE 2-1
: OF OCTOBER 1972 TO 24,760,000 SOCIAL S
BENEFICIARIES

Since 1954, notice of raise comes w/ Presidential message & signed by President & Congressperson (Fig. 2-1)...

[...significance of both signatures?]

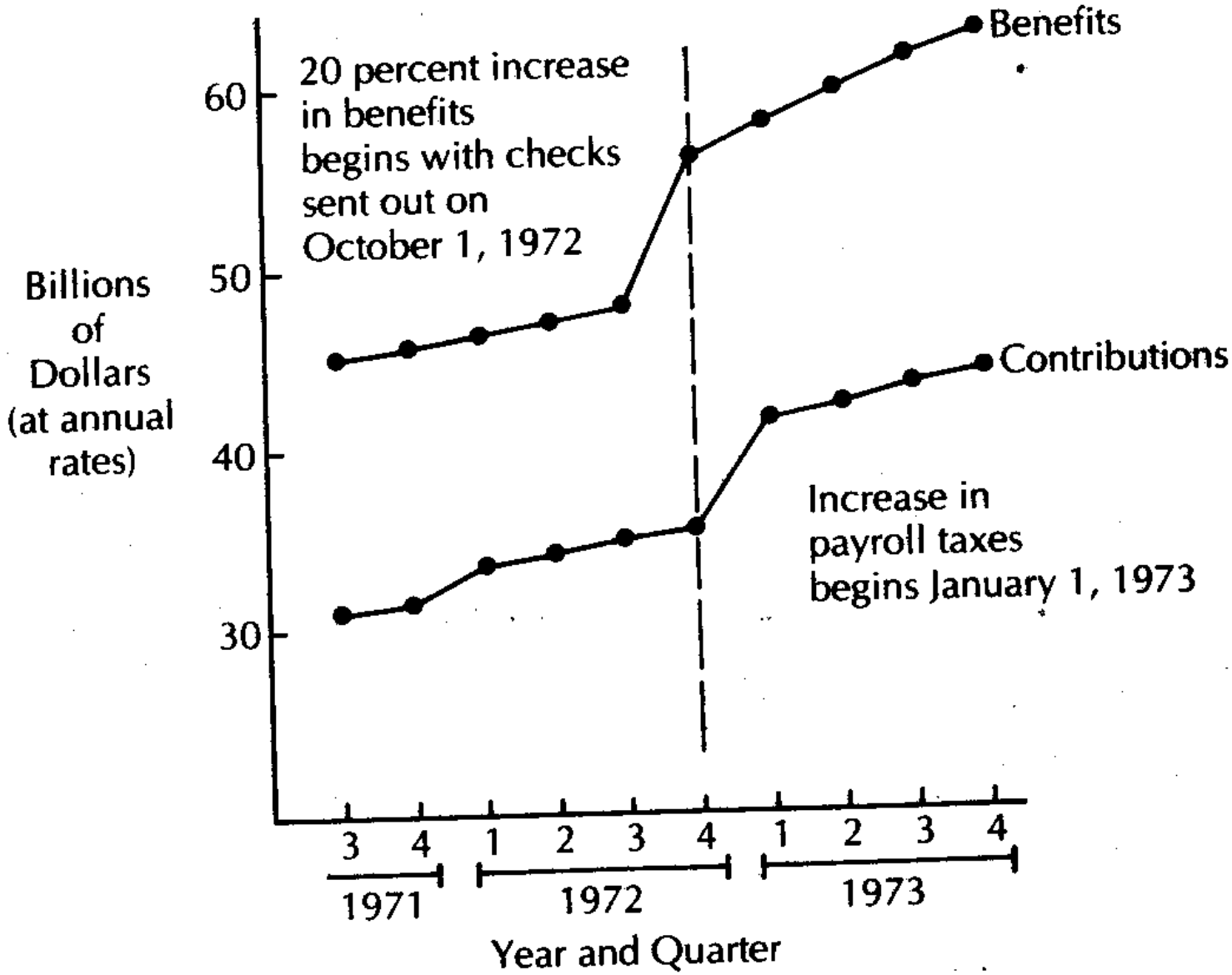


FIGURE 2-2
PRE-ELECTION PAY-OUT OF BENEFITS AND POST-ELECTION PAY-IN OF CONTRIBUTIONS

Within-year increases usu. Sept.

(4 of 6 ⇒ $p \approx .0000$ in pre-COLA era)

(null hypothesis: all 12mos equally likely)

September timing ⇒ Benefit increases in Sept., Taxes increase in Jan.

3. SS Taxes

a. Greater payroll-tax hikes in 17 non-election yrs, 11 election yrs, & 1 tie ($p \approx .13$)

b. Taxes collect starts Jan. until some ceiling; taxes over for many/most by Nov.

4. Campaigns & "Bidding Up" SS Promises (Follow passage pp. 35-36; elab.)

Social security increases require the joint action of the Congress and the president. In such election years as 1972, with a Republican president and a Democratic Congress, it seems reasonable to expect a bidding process growing from efforts to obtain the political credit for a generous improvement in social security benefits. In late 1971, President Nixon proposed a 5 percent increase for 1972, which was eventually trumped by the Democratic Congress that increased benefits by 20 percent. The bidding sequence went as follows:

PRE-CAMPAIGN (LATE 1971)

—5 percent increase passed by House, "guided through by Wilbur Mills"

—5 percent increase for 1972 advocated by President Nixon

PRIMARY CAMPAIGN (EARLY 1972)

—15 percent increase proposed by Muskie (before New Hampshire primary)

—20 percent increase proposed by Mills (before New Hampshire, when Mills was a candidate in the presidential primaries)

—20 percent increase then proposed by Muskie (still before New Hampshire)

—25 percent increase proposed by Humphrey (after New Hampshire, before Wisconsin)

PRESIDENTIAL CAMPAIGN

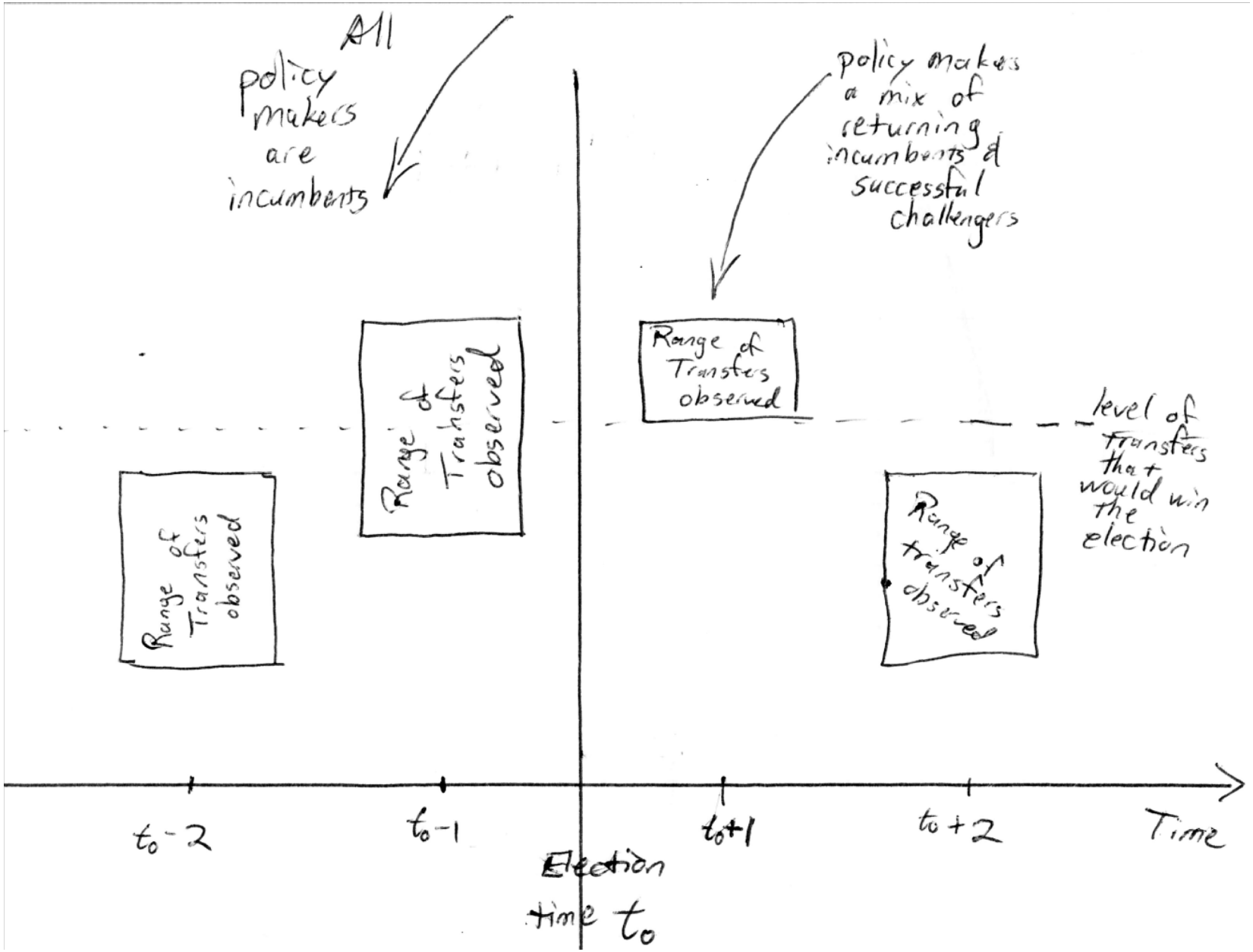
—20 percent increase passed by House and Senate, July 1, 1972, despite hints of presidential veto

—20 percent increase effective September 1, 1972, signed into law by President Nixon

—20 percent increase in social security checks sent out on October 1, 1972.[8]

As a result, $8.0 billion of the $15.2 billion rise in personal income in October 1972—the month immediately preceding the presidential election—was accounted for by the rise in social security benefits.

5. {Could be interesting to think through implications of considering challenger(s)'s role more fully (if time & inclination)...}



6. Veterans' Payments also Tend to Peak in 4th Q of Election Years (Fig. 2-3)

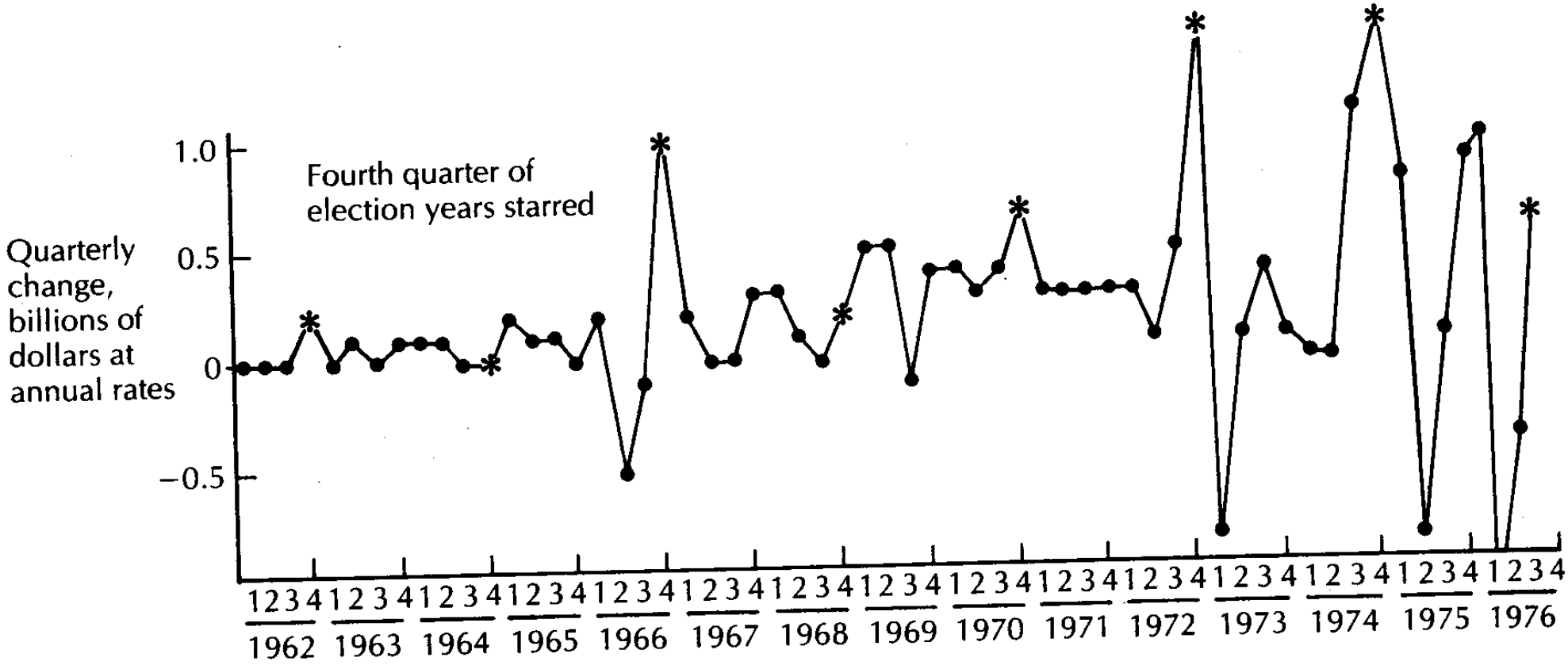


FIGURE 2-3
QUARTERLY CHANGES IN VETERANS BENEFITS

B. Kyphosis

1. Normally, transfer payments peaked for year in Dec.: 7/8 odd-number years, Dec. max. (Fig. 2-4, p. 40); 4/7 even years, Oct. or Nov. max. (Fig. 2-5)
2. Can adjust timing *via* politician influence of bureau.; requires no legislation
   a. Requires powerful president to sway bur. (do it to avoid presidential displeasure)
   b. If so, suggests more popular presidents will produce more kyphosis.

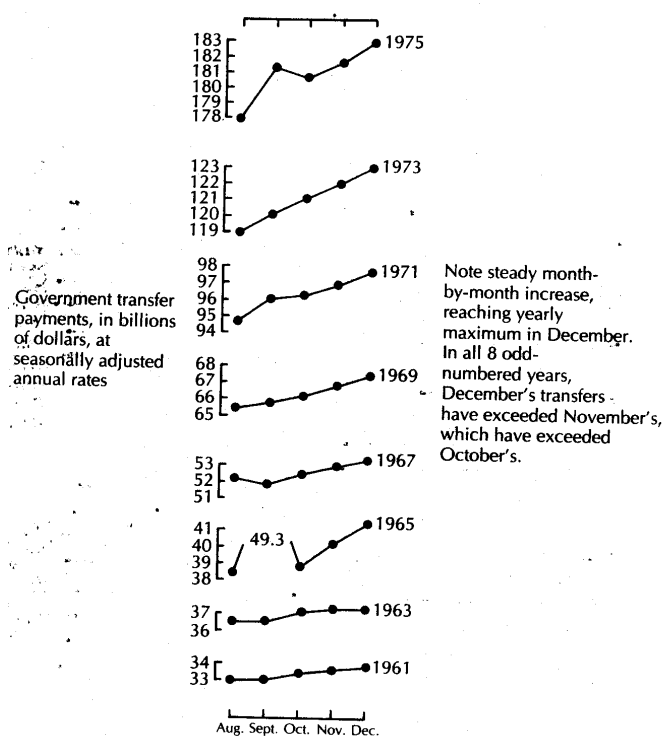


FIGURE 2-4
THE PATH OF TRANSFER PAYMENTS IN THE FALL OF ODD-NUMBERED YEARS

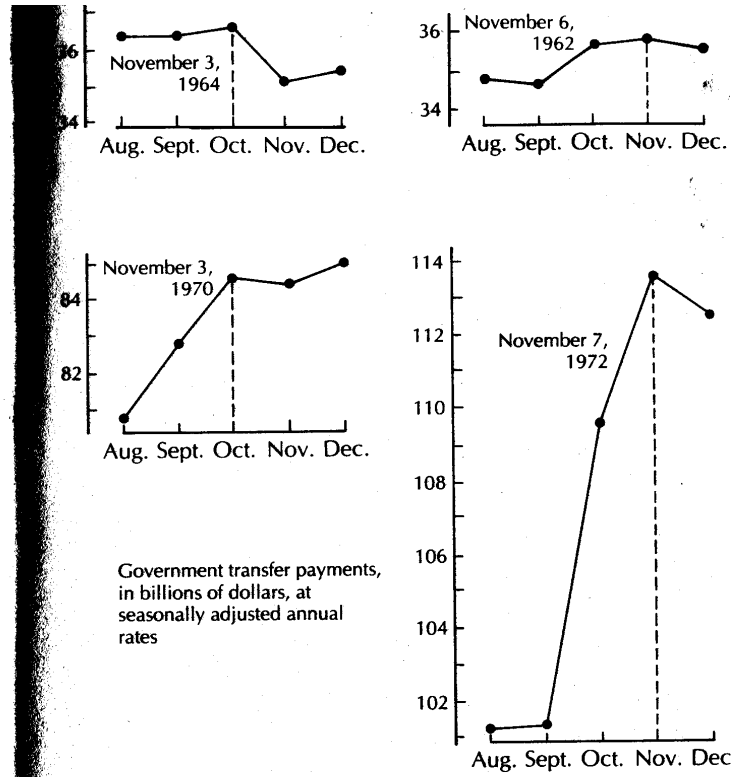


FIGURE 2-5
HEAPING OF TRANSFER PAYMENTS IN 1962, 1964, 1970, AND 1972; VARIETIES OF KYPHOSIS IN RELATION TO THE DATE OF THE ELECTION

3. Fig. 2-6: SS checks delivered 3rd day of month or first delivery day after

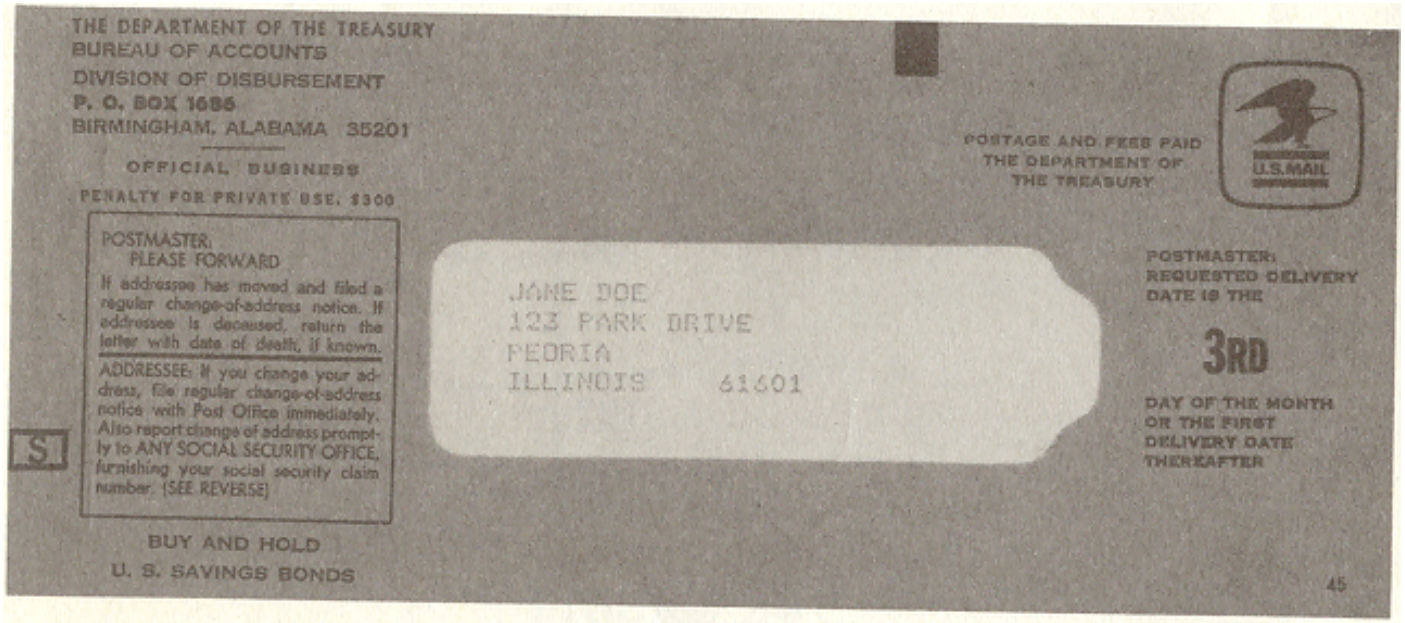


FIGURE 2-6
DELIVERY INSTRUCTIONS ON THE SOCIAL SECURITY ENVELOPE

a. ⇒ *octokyphosis* if early 1st-week Nov. elect. (1964, 1970; elect. on 3rd)

b. ⇒ *novemkyphosis* if late 1st-week Nov. elect. (1962, 1972; elect. on 6th, 7th)

4. Through 1977, fiscal year ran July 1 to June 30; beginning FY1978, shifted to Oct. 1 through Sept. 30… spending tends to heap near/at end of FY…

a. Public spend rises some at fiscal-yr end as agencies strive to spend remainders

b. Any public-spend increases (e.g., COLA…) begin at start of new fiscal years

C. The Presidential Campaign in 1972 and Economic Policy

1. Arthur Burns (Nixon-appointed Fed Chair), Herbert Stein (Council Ec. Advisors Chair), & R. Nixon all firm believers in this mechanism

2. Burns bows to Pres. requests for monetary easing: {Table 2-2 on generality}

   a. Probability of Table 2-2 top (chi-square test) = .094, and p(bottom)=.058

3. p. 53 (scanned below-right) on the spending particulars; Tufte's guesstimate: 75Mpeople benefitted from such increased transfer pays

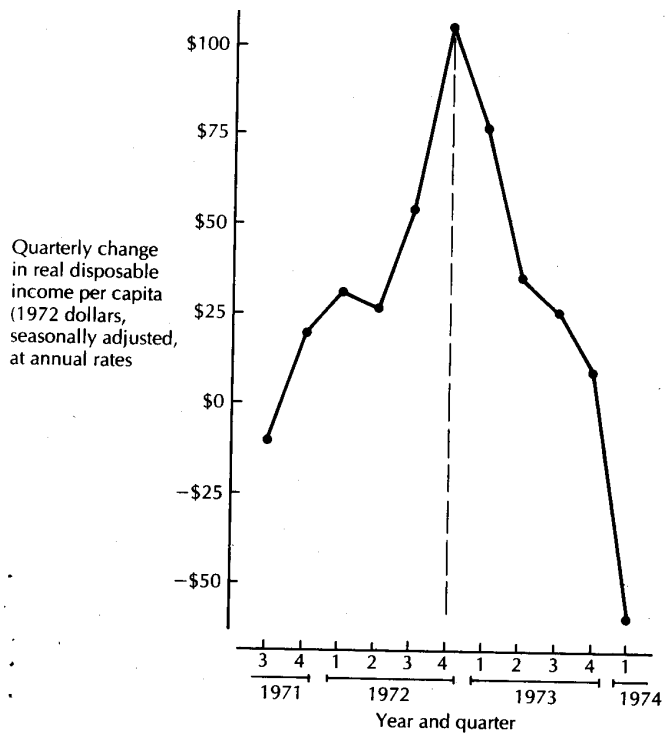


FIGURE 2-7
Quarterly Changes in Real Disposable Income Surrounding the 1972 Election

TABLE 2-2
Changes in Money Stock, Two-Year Periods, 1948-1976

	Biennial periods	
For 1948-1976	*Prior to the presidential election*	*After the presidential election*
Rate of growth of money supply increased	4	1
Rate of growth of money supply decreased	3	6

	Biennial periods	
For 1948-1976, except Eisenhower years	*Prior to the presidential election*	*After the presidential election*
Rate of growth of money supply increased	4	1
Rate of growth of money supply decreased	1	4

1971-1	10.8
-2	11.1
-3	11.4
-4	11.7
1972-1	12.0
-2	12.1
-3	12.6
-4	14.1 (election quarter)
1973-1	13.3
-2	13.4
-3	13.8
-4	13.9

veteran's benefits

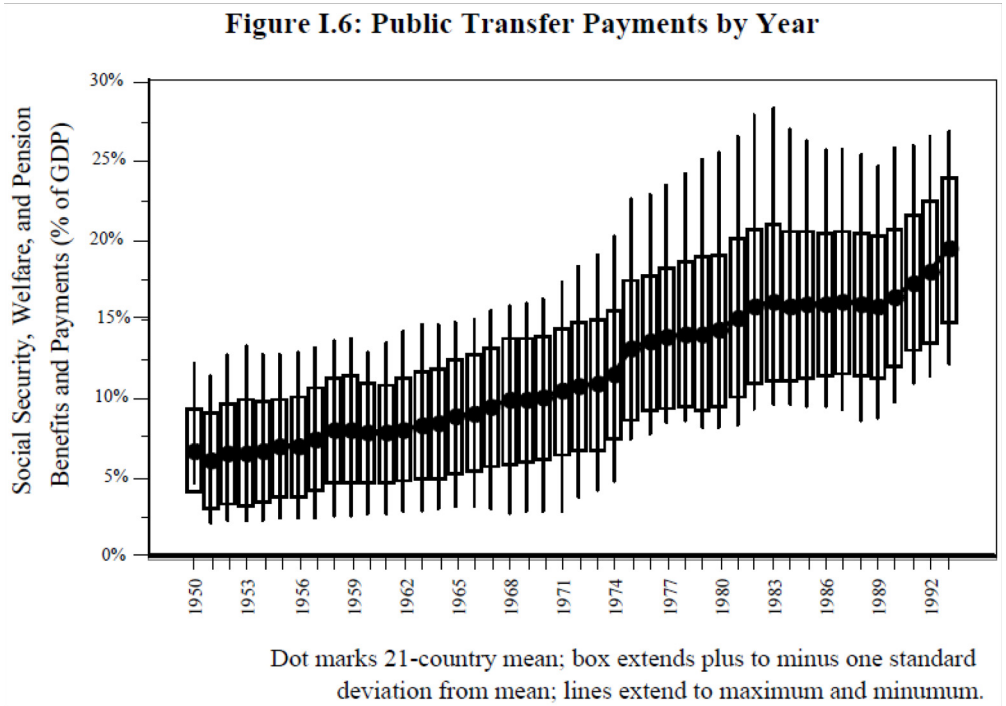
Along with social security (or, more broadly, OASDHI benefits) and veterans benefits, the other major source of direct government payments to voters consists of federal grants in aid to state and local governments. The quarterly flow of this money (in billions of dollars at annual rates) was impressively kyphotic:

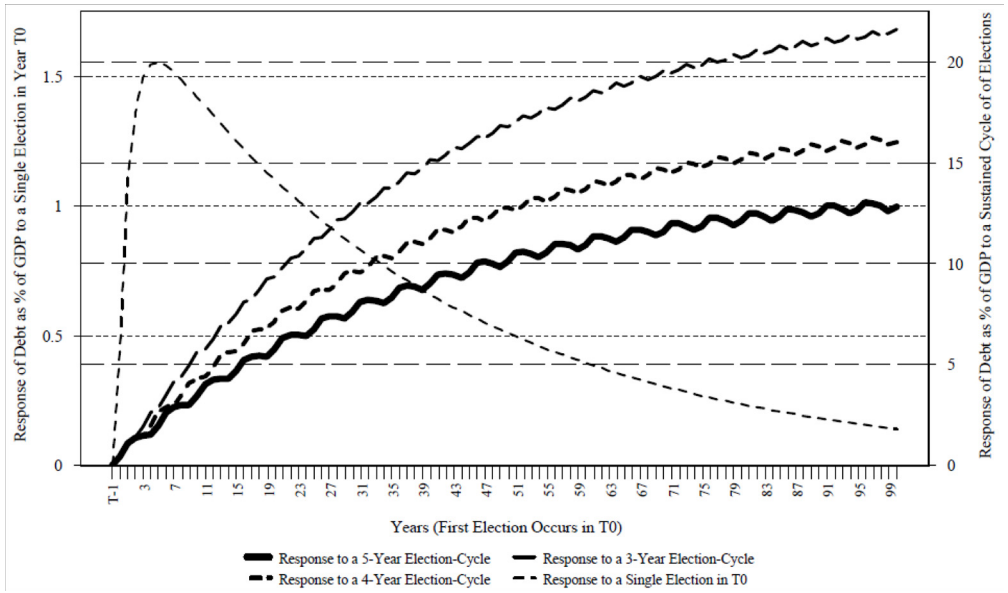
1971-1	27.1
-2	29.5
-3	29.8
-4	30.8
1972-1	32.2
-2	38.0
-3	34.4
-4	46.1 (that's right)
1973-1	41.1
-2	40.5
-3	40.5
-4	42.5

IX. Further extensions of the theory (some are repeats of above)

A. Compares degrees of manipulation of real-disposable-income-*per-capita* and unemployment. (p. 57) {Which more? Why?}

B. Transfers probably preferred to broad macroecon policy-manipulation {why?}; transfers as % of govt spending rose dramatically in all democracies, until very recently perhaps. {Connection? Perhaps. Discuss if time & inclination. The below from *Macroec Policies of Dev'd Dems*…}





C. Asymmetric policy: perhaps even more that govt fails to do something would otherwise do than that govt actively does something it otherwise would not in election years (fn. 30, p. 61)

1. *E.g.*, Military-base closings = non-elect. yrs ; "Showcase-programs" = elect. yrs; *E.g.*, foreign-policy, presidential-appoints delays, advances, or choices.

D. [Might opposition even try (covertly) to sabotage economy? Why (not)?]

X. Limits on PBC's: Given all this motive, means, & opportunity, why not even more extreme & regular electoral manipulation?

A. Incentives that most favor incumbent manipulation do not always obtain

B. Being seen to manipulate economy for political gain is politically costly [how so?] ⇒ need at least justify [Other costs electoral manipulation?]

C. Divided authority over policy with conflict of interest among authorities

D. Other considerations (e.g., *economic integration*) affect policies, & their maneuverability and efficacy as well...

E. Tufte also mentions: Character, ideology, and beliefs of the incumbent

XI. Some complications regarding empirical evaluation of theory. In short, everything that complicates the thry, complicates (or should) the empirical analysis; must try to model or control these things

A. Policies motivated by lots of other concerns too (*e.g.*, the good of the nation, ideology of the policymakers, *etc.*).

B. Economic outcomes affected by much more than electorally-motivated policies; moreover, policies do not always achieve their aims.

C. Domestic & international, political & economic, institutional & structural constraints upon policymakers' discretion over policy…

1. Open economy (Trade & Cap Mobility) ⇒ macroeconomic management generally more difficult, less ideal re: Tufte's *-ables…*:

2. Changes in Exchange-Rate Regime (Gold Std, Its Collapse, Bretton Woods, Its Collapse, EMU1-2-Euro, Its Crises) also important complications:

   a. Particularly monetary & fiscal policy maneuverability & efficacy greatly affected.

   b. More to come in Clark (and in my articles & chapter just before midterm).

XII. Note on Elections in the International Economy (ch. 3): Economies of capitalist democracies (especially) have increasingly synchronized

A. Table 3-1 (p. 66):

1. Of G-7, only Italy had greater growth in its own than in US election years
2. All had greater growth in their own election-years than non-election years

TABLE 3-1

MEDIAN ANNUAL GROWTH RATES (PERCENT), REAL GNP PER CAPITA, ELECTION YEARS AND YEARS WITHOUT ELECTIONS, 1959-1976

	Election Years			
	1 Country's election and U.S. election in same year	*2 Country's election only*	*3 U.S. election only*	*4 No election in country or in U.S.*
Canada	4.3	4.1	4.3	1.8
France	4.4	4.7	5.5	4.3
Germany	2.8	4.4	6.9	2.4
Italy	2.3	9.6	3.8	4.6
Japan	10.7	9.3	12.8	6.8
United Kingdom	4.9	2.5	2.9	1.5
United States			4.0	2.1
Overall	4.3	4.6	4.3	2.4

B. All have "endogenous election-timing" (p. 67, and Fig 3-1)

1. From1959-70, in G-7 excluding US, 13/22 in odd-yrs & 9/22 in even yrs; from 1971-76, 1/12 in odd-yrs (& that in a boom) & 11/12 in even yrs:

   (1) $p=.003$ that odd & even same 1971-76; $p=.0004$ that 1959-70 same as 71-76; but...

   (2) {Is that odd? or favorable? considering *collapse Bretton Woods/closing Dollar-Gold window*? Or, instead, is primary consideration smoother trend economic integration?}

	Elections held in	
	even-numbered year	odd-numbered year
1959-1970	9	13
1971-1976	11	1

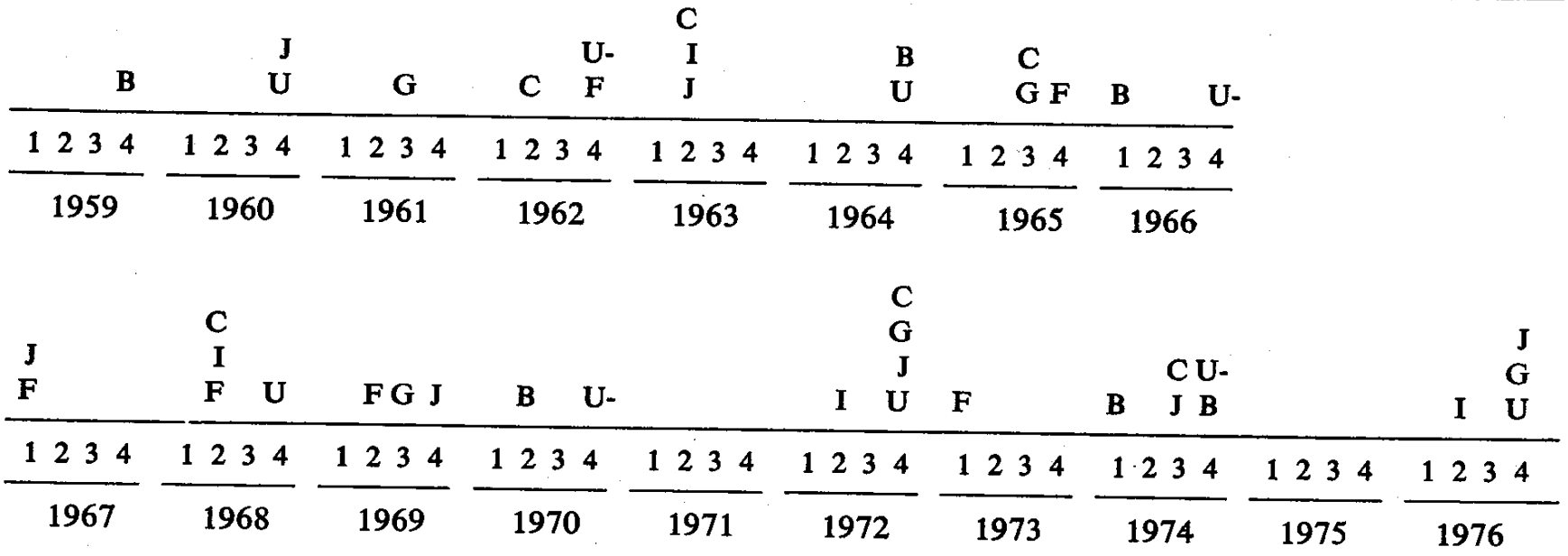
Including the dates of U.S. elections shows the tremendous electoral pressure recently placed on even-numbered years by the seven largest capitalist countries:

	Elections held in	
	even-numbered year	odd-numbered year
1959-1970	15	13
1971-1976	14	1

since about '71, ele. increasingly occur in US ele. yrs

FIGURE 3-1

ELECTION DATES, 1959-1976



B = Britain
C = Canada
F = France
G = Germany
I = Italy
J = Japan
U = United States presidential elections
U- = United States midterm congressional elections

2. Suggestions / Extensions

a. Possibility of an international electoral-cycle. Autonomy ↓ as increasingly small and open, so extent coincide w/ US ↑?

b. fn1, p. 69: importance reserve assets &, by implication, fiscal position more gen'ly to ability to manip for econ advantage Fn3 (p.69-70): interesting quote on upshot:

the 1976 international election season opened, one observer of the British economy made it all very clear:

> . . . what happens to Britain will be very much affected by what happens in the giant economies of the U.S., Germany, and Japan [all having elections in 1976]. If these three countries, which between them account for a fifth of British exports, remain depressed this year, the British economy will certainly not recover. If they revive, the key question for Mr Healey will be how fast to allow the revival to feed through into the British economy. One of the nastier facts of life is that the level of unemployment in Britain this year will depend largely on the whim of other countries' electorates. (Frances Cairncross, "Polls Hold the Key to Recovery," *Guardian*, December 29, 1975, p. 12.)