

Partisan Preferences, Electoral Prospects, and Economic Expectations*

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Abstract

Research shows that economic expectations reflect partisan preferences. Those who support the current government tend to think the future will go well, at least by comparison with those who oppose the government. But, there always is uncertainty surrounding the political future, especially in the period before elections, and many scholars assume that people take this uncertainty into account. We do not know whether this is true, however. This manuscript considers the possibility. Specifically, it examines whether political uncertainty matters for economic expectations leading up to elections—whether people’s economic expectations are conditional on their own estimates of who will win. The test relies on data from five election study panels in the United States and the United Kingdom, for which pre-election and post-election measures are available. Both are majoritarian systems, where the effects of partisan winning and losing are most likely. The results imply that people in these countries do anticipate election outcomes: (1) before elections, those who think their preferred party will win are significantly more optimistic about the economic future than those who think their preferred party will lose; (2) after elections, where there usually is little electoral uncertainty, expectations do not show any such differences and all that matters is the preference for the sitting government. Based on the analysis, economic expectations reflect both the political present *and* future, at least in two different majoritarian systems. This not only tells us that expectations in these systems are substantially rational but that politics plays a much bigger role in our economic thinking than originally thought.

Previous research shows that individuals' preferences for the sitting government influence their economic expectations.¹ Whether for psychological reasons or cognitive ones, those who support the government tend to think the future will go well, at least by comparison with those who oppose the government. This is of obvious importance. It reveals that politics clearly structures economics perceptions, and with potentially important consequences, e.g., a change in government can lead to a change in economic expectations. To the extent expectations matter for behavior, it can have effects on the real economy itself. Implicit in the previous research, however, is an assumption that may take one of two forms—that the sitting government will remain in power into the foreseeable future or that voters do not take future political control into account. That is, economic expectations are assumed to be unconditional.

Yet there always is uncertainty surrounding the future control of government. There always is some possibility, however small, that the current leadership will lose control at time $t+1$. It is a structural feature of most parliamentary democracies, where governments actually may be tossed out of power at any point in time. It is less structural, though still a feature of other systems. In all democratic systems, the uncertainty surrounding future control is concentrated in the period prior to elections. This uncertainty should color people's economic perceptions; if the current government can structure the economic future, presumably a future government can too. By implication, economic expectations should be conditional on people's forecasts of the political future itself, at least in the short run. This actually is a commonly-held assumption (Haller and Norpoth, 1994; Carey and Lebo, 2003). It also is what we would expect were economic expectations "rational," which also is commonly assumed.² It nevertheless is little-researched.³

¹ See Conover, Feldman, and Knight, 1987; Wlezien, Franklin, and Twiggs, 1997; Anderson, Mendes, and Tverdova, 2004.

² There is a large literature. See, e.g., Alesina, Roubini, and Cohen (1997). For a contrary view, see Krause (2000).

³ What we know comes from recent studies of stock market prices, which suggest that political uncertainty matters (especially see Leblang and Mukherjee, 2003; 2004). Although this is a satisfying and important result, it tells us only about investors and only taken together, not people writ large.

This manuscript examines the conditionality of economic expectations leading up to elections in two majoritarian systems, where such effects are most likely. We first lay out our conjecture and then design a specific test. For the test itself, we use data from five election study panels in the US and UK, for which we have readings both before and after elections. Analyses of these data show that individuals' pre-election economic expectations are powerfully structured by their political support for the sitting government but that political prospects also matter. Given preferences, however, those who think their preferred party will win an election are significantly more optimistic about the economic future than those who think their preferred party will lose. Post-election expectations do not show any real differences owing to pre-election political prospects, and party preference dominates instead. The pattern of results indicates that in these countries economic expectations anticipate election outcomes. That is, they reflect both the political present *and* future. The finding not only tells us that expectations are substantially "rational" in the economists' use of the word, but that politics plays a much bigger role than originally thought. The finding also helps us understand empirical patterns that have heretofore eluded explanation, as we will see.

The Politics of Economic Expectations

A lot of research considers the political consequences of economic expectations, some of which was noted above. Lewis-Beck's (1988) statement probably is the strongest and most comprehensive to date.⁴ Until fairly recently, however, little attention has been paid to the political causes of these expectations, at least at the individual level. There is of course a long tradition of research showing that people's perceptual screens do impact what they see (Campbell, et al., 1960). Following in this tradition, Conover, Feldman and Knight (1987) reveal that party identification colors people's economic perceptions, and some scholars have explicitly considered the possibility in models of vote choice, such as Lewis-Beck (1988). While this was an important step forward, it still stopped short. That is, controlling for selected political variables, such as ideological disposition, economic expectations were

⁴ For a nice review of the broader literature on economics and elections, see Lewis-Beck and Stegmaier (2000).

assumed to be otherwise exogenous to politics, a function of retrospective economic evaluations and other things, presumably economic ones.

Recent research shows that this is not true (Wlezien, Franklin, and Twiggs, 1997; Anderson, Mendes, and Tverdova, 2004; Evans and Anderson, N.d.). Individual-level economic expectations do reflect retrospective perceptions, but both reflect political preferences. People who support the sitting government are more positive about the economic past. People who are positive about the economic past also tend to be more positive about the economic future, and those who support the sitting government are especially optimistic. Both retrospections and expectations capture other things, of course. This research tells us that politics plays an important role in economics, at least economic perceptions. The political present clearly matters. It “contaminates” our perceptions.⁵

There are a number of different explanations for this pattern, most of which are “psychological” in nature. The now classic view is from Campbell, et al. (1960), who posited that people’s perceptions of the world are structured by a “perceptual screen” of political preference. From this perspective, people take a favourable view of policies pursued by (or actual outcomes associated with) candidates or parties they support (also see Bartels, 2002). To the extent that people associate economic performance with the incumbent government, a government they liked (disliked) might be deemed to be performing well (poorly) regardless of real economic conditions. There are other psychological explanations. For instance, following Festinger (1957), the pattern may be due to people’s desire for cognitive consistency between preferences and perceptions. There also is a more explicit “cognitive” explanation for the results. That is, it may be that people support the candidates or parties whose policies they prefer. When their preferred politicians are in power, according to this perspective, people become more optimistic about the future because they expect the policies will have a salutary effect. This is what we would expect if voters are Downsian and base their partisan judgments on issues, choosing candidates and parties based on their policy positions. It differs quite markedly with the psychological explanations.

⁵ See Wilcox and Wlezien (1996).

Although we do not know the exact psychological or cognitive underpinnings, we do know that the political present structures people's economic expectations, as we have seen. But, what about the political future? Do people's economic expectations reflect perceptions of future government control as well, particularly leading up to an election? That is, are their expectations conditional on who they think will win? Certain scholars presume that they are (e.g., Haller and Norpoth, 1994). In effect, people's economic expectations are assumed to be rational, fully informed by the information they have at hand (Alesina, Roubini, and Cohen, 1997). It is important to know whether this is true. Indeed, it would go a long way toward demonstrating a meaningful cognitive component in economic expectations. Such a pattern is not easily explained by purely psychological mechanisms, after all. It is exactly what we would expect if people thought that government control has real effects on economic policy *and* performance.

We nevertheless do not know whether voters do take into account political uncertainty. There is no individual-level work on the subject. Macro-level analyses offer little additional information. While there is a huge body of research on aggregate expectations, relatively little has examined political influences. There are numerous analyses relating expectations to retrospections, though the temporal connections are quite different to what we observe at the individual level at particular points in time. Katona's (1972) classic work shows that perceptions of the past and future can be negatively related over time, i.e., that expectations are most optimistic when economic conditions are at their worst. This finding comports with the rational expectations model; at least it implies that people look beyond the economic past, and thus are not merely adaptive. MacKuen, Erikson and Stimson (1992) provide even more compelling evidence. Based on their research, expectations anticipate real economic change, though brand-new work by DeBoef and Kellstedt (2004) shows that the process by which people acquire information is heavily mediated. Perhaps most importantly, political factors have significant effects, including evaluations of presidential performance itself.

Until Suzuki (1992), no research explicitly examined political influences over time. In this research Suzuki showed that politics did matter for expectations over time, and in a provocative way. That is, he provided evidence of an electoral cycle, where economic expectations tend to rise leading up

to an election and then peak just thereafter. It was an important finding, particularly given the literature on political business cycles (for a useful review of this literature, see Franzese, 2002). In one sense, it represented the missing link or “smoking gun” of sorts. But what Suzuki really created was a puzzle. How do we explain his electoral cycle? It evidently wasn’t the real economy, as he controlled for it in his analyses. There also is only mixed evidence for political business cycles in overall economic activity (Alesina, Roubini, and Cohen, 1997), though we need not take a position in the debate. Perhaps somehow policymakers have been able to induce an expectation cycle that has little basis in reality, at least one that we haven’t yet found.⁶

We think that conditionality is another possibility. That is, it may be that economic expectations actually anticipate election outcomes themselves. Consider a scenario where the incumbent is doing poorly and many of us want to change course. Research tells us that we will be pessimistic about the future. At some point, however, we recognize an election on the horizon. This introduces uncertainty about the future. Indeed, it raises the possibility that the incumbent will lose, which should raise economic hopes, on balance. As it becomes clearer that the sitting government will be getting the boot leading up to Election Day, we should tend to become even more optimistic.

Now consider a second scenario, where the incumbent party is doing well and a large proportion of voters support the government. The reasoning here is a bit more subtle, as we will be optimistic about the future to begin with. As the election cycle evolves, the prospect of an election induces uncertainty about future control. Will the incumbent win? Or will the challenger? This presumably will make us less optimistic on average. As it becomes clear leading up to Election Day that the incumbent will remain in office, however, aggregate optimism should rise.

Our conjecture seems to fit quite well with the empirical patterns we observe. We might even wonder: What else would explain the seemingly singular cycle in expectations? The conjecture also fits well with the literature. We already know that individuals’ preferences for the sitting government

⁶ We are agnostic about whether the economic past or future is more important, which is the subject of much debate (see MacKuen, et al., 1992; Clarke and Stewart, 1994; and Norpoth, 1996), and also on whether national or personal considerations receive greater weight (especially see Sanders, 1996).

influence their economic expectations, as we have discussed. We also already know that people make forecasts about future government control and that these are surprisingly accurate in the period preceding elections (Lewis-Beck and Skalaban, 1989; Johnston, Brady, Blais, and Crete, 1992). Our conjecture simply requires individuals to take both their partisan preferences and political forecasts into account, so that their economic expectations are partly conditional on expectations about the political future. Both current government control and likely future control would matter and their balance of influence would depend on a number of things: (1) the time frame of economic expectations; (2) the point in the election cycle; and (3) the degree of certainty about the election outcome.

First, the time frame of economic expectations is fundamental. Short-run expectations, say, over the next 12 months, cannot be impacted by an election a year or more from now.⁷ Even an election in 9 months may not matter if the winner does not take office for another 2-3 months, as in the US. Indeed, it also may take more time for the government to have a meaningful effect. The point is that the time frame matters and in fairly predictable ways. (This is of real significance to a portion of our analysis, as we will see.) Second, the point in the electoral cycle is of (related) importance. Well in advance of an election, and putting aside other causes of government termination, expectations about the economic future should be dominated more by current government control than future government control. The logic is simple: when the election is far in the distance, the foreseeable future is mostly in the hands of the present government. Finally, as we approach Election Day, the degree of certainty about the election outcome also is important. Future government control can influence our expectations only to the extent we foresee victory for one party or another. To the extent we are uncertain about the outcome—that we are unsure about who will win and lose in the future—our economic expectations can only neatly reflect government control at present.

There also is reason to think that the patterns vary across institutional contexts. Specifically, we might expect that the structuring influence of party control, both current and future, will be most pronounced in majoritarian systems. In these systems, the winners really do win—they get control of

⁷ See Erikson, et al. (2000) for striking evidence of the clarity of the public's economic time horizons.

government. They can control policy. For voters in these countries, therefore, the result matters a lot (see Anderson and Guillory, 1997). By implication, their preferences can more directly influence their expectations about government outcomes, including the economy. In proportional systems, winning typically is less clear. While majority government is possible, coalition government predominates (see Lijphart, 1984). In coalition government, any particular party has less control over policy. Policy tends to better reflect the median voter (Powell, 2000). To voters, winning is consequently less rewarding and losing is less costly. The effects of partisan preferences will be correspondingly dampened.

A Specific Analysis

To conduct research on how political expectations leading up to an election structure economic ones, it would be ideal to have a wide variety of data at our disposal. To begin with, we would have individual-level perceptual data on economic expectations and political prospects, each on a regular basis, at short intervals, and for a number of different election years. We also would have aggregate-level objective data for both political and economic conditions, again on a regular basis, at short intervals, and for a number of different election years. The data also would approximately correspond over time. This would allow us to anchor (and cross-validate) changes over time in the subjective and objective data. It is a tall order, however, and one that cannot currently be filled within a single country let alone across countries.

The objective data are good, especially as relates to economics. Numerous measures are available and at a variety of levels and on a fairly regular basis. This is well known. Objective data relating to objective electoral prospects are harder to come by, though the election forecasters offer some information (see, e.g., Campbell and Garand, 2000; Sanders, 1996) and polls do too (Wlezien and Erikson, 2002).⁸ We also have individual-level perceptual data. Unfortunately, the existing panel data mostly relate to economics and are available only infrequently and over very short or very long time periods (see also Anderson, et al., 2004). The data thus are very limited. We do have regular cross-

⁸ There are yet other sources, including the election markets such as the Iowa Electronic Markets (IEM) and those at Tradesports.com.

sections of economic expectations, however. Together with the objective economic and political data, a reasonable aggregate time series analysis may be possible.

Although this macro approach may have a certain appeal, we focus on individuals over time, which affords a more direct test of our hypotheses. For the analysis, we rely on a set of two-wave panels, those where surveys containing measures of our key variables are conducted both before and after elections, in the US and UK. To our knowledge, these are the only countries for which such data are available. They happen to be majoritarian systems, where our conditional effects of party preferences are most likely. We use data from five national election studies: Three from the American National Election Studies (ANES)—in 1992, 1996, and 2000—and two from the British Election Studies (BES)—in 1997 and 2001. The BES actually conducted additional pre-election waves as part of its 1992-1997 survey, but unfortunately did not include the item asking about who will form the next government, which is critical to our analysis. Thus, our examination focuses primarily on how individual-level political preferences, electoral prospects, and economic expectations interrelate in the one-wave pre-election survey in each year. These data clearly cannot give us a complete picture of the interrelationships between economic and political change. However, we can determine the structure relating individuals' subjective forecasts of the outcome of an upcoming election, given preferences, and their economic expectations. We also can draw comparison with the structure of expectations using data from the post-election waves of the panels. That is, we can compare the pre-election structure, in the context of electoral uncertainty, with the post-election structure, where there is no electoral uncertainty. It allows us to determine whether any evident conditionality prior to elections is spurious, the result of some other variable that is present both before and after elections. We thus can settle things empirically.⁹

Competing Models of Economic Expectations

How do we expect partisan preferences, electoral prospects and economic expectations to interrelate? Let us consider the possibilities, for the moment putting aside the traditional “economic

⁹ Note also that the new monthly BES panel data leading up to the 2005 UK election permits a more fine-grained analysis in that particular year.

voting” model. The first possibility is that expectations only reflect preferences for current party control. This reflects the current literature, as discussed above. Its implications are also straightforward. If it is the right model, people’s economic expectations would depend only on their preferences for the sitting government. Those who prefer the government would be optimistic and those who oppose it would be relatively pessimistic. These expectations would be unconditional. They would not depend on political expectations about the outcome of elections or other political events. The empirical implications are summarized in the first column of Table 1. Here, expectations are high whenever the government is preferred and low whenever the government is not preferred.

The pattern in column 1 is exactly what we would predict if economic expectations cause partisan preferences. According to this prospective “economic voting” model (Lewis-Beck, 1988), those who are think the future economy looks bright would vote for the incumbent party, while those who think the future looks dim would vote for a challenger. Thus, the causal direction relating economic expectations and current party control is not obvious, and cannot be established cross-sectionally. We can to some extent choose between the two explanations over time, however, as Anderson et al. (2004) have shown. Specifically, we can observe what happens to economic expectations when government control changes. If party preferences cause economic expectations, individuals’ economic expectations would change to reflect partisan preferences for the new government.¹⁰ If economic expectations cause party preferences, conversely, economic expectations would not change, at least for partisan reasons. This is critical: It allows us to determine whether party preferences actually cause economic perceptions and not the other way around.

-- Table 1 about here --

Now, another possibility is that economic expectations are entirely conditional, and only reflect future party control. The implications also are straightforward. If it is the right model, people’s expectations would depend only on their preferences for the party they think will win in the upcoming election. Those who think their preferred party will win would be optimistic and those who think it

¹⁰ In a two-party system, expectations might literally flip.

would lose would be relatively pessimistic. Expectations would be unrelated to the sitting government. All that would matter is who will control the future. The implications of this model are summarized in the second column of Table 1. Here, economic expectations are high for those who prefer the incumbent party and expect it to win *and* those who do not prefer the incumbent party but expect it to lose. Expectations are relatively low for those in the other two categories, where preferences and prospects do not match. The pattern differs clearly from what expect owing to current party control. It also is different to what we would observe if economic expectations cause party preferences.¹¹ This is of obvious importance.

Yet another possibility is that expectations reflect both preferences for the sitting government and prospects for future control. This might seem a very understandable combination. If this “combined” model is right, those who prefer the incumbent party and expect it to win would be the most optimistic about the future. Likewise, those who do not prefer the incumbent party but expect the party to win would be the most pessimistic. In the other two categories, expectations should be middling. Their order would depend on the relative impact of current party and future party control. If current party matters more, then those who prefer the incumbent party but do not expect the party to win would be more optimistic. If the future party matters more, then those who do not prefer the incumbent party and think it will not win reelection would be more optimistic. If both current and future party matter equally, expectations in the two categories would be indistinguishable. These implications are summarized in the third column of Table 1. Notice that the orderings of the different models are distinct, at least in theory. Let us see how things work in practice.

The Data

In every national election year, studies are conducted in the UK and US that ask questions of a sample of citizens both before and after the election. Here, we use the set of these two-wave panel surveys conducted in the US in 1992, 1996, and 2000 and in the UK in 1997 and 2001. The UK surveys

¹¹ As we already have discussed, if economic expectations cause party preferences we would observe the pattern described in the first column of Table 1.

actually were part of longer-running panels conducted from 1992-1997 and 1997-2001, respectively. The studies differ in numerous other ways, both across countries and across surveys within countries. The US relies more exclusively on a face-to-face mode, spends longer in the field both before and after elections, and asks a more intense battery of questions. The relevant ones also will be made clear as the analyses unfold. Of course, there are other differences, and some of these are of special importance. For instance, the pre-election wave of the 1997 panel actually was conducted in the autumn (between 10 October and 12 December) before the election of 1 May. This constrains our analyses in that year, as we will see. Most important, however, are the similarities. Sample sizes all are above 1100 and panel attrition between waves is small, no more than 22 percent in any given year and approximately 15 percent on average. Now let us review the variables for analysis.

Economic Expectations

Our primary dependent variable is the measure of national economic expectations. While it may be that personal expectations are most important for political evaluations (Sanders, 1996), we are interested here in how government control tutors expectations relating to the national economy. Importantly, a question tapping these evaluations—whether things will get “better” or “worse,” “stronger” or “weaker”—is asked in each pre-election wave of the five surveys.¹² The same is not true in the post-election wave, however. In the UK, respondents were asked the same question in both waves in both years. In the US, an expectations question was asked in the post-election survey in 1992 but not in 1996 or 2000. (Given its post-election context, the missing case of 2000 is especially disappointing.) This is unfortunate, but only limits our analysis somewhat. That is, the pre-election data allows us to explicitly assess the differences that electoral prospects make for economic expectations in each of the five election

¹² The question wording for each of these items does differ across countries and elections, however. In the 1997 survey in the UK, respondents were asked: “Looking forward to the year ahead, do you think Britain’s economy will get stronger, weaker, or stay about the same?” They then were asked: (If stronger or weaker) “By a little or a lot?” The same question was asked in the 1997 post-election survey. The question was changed a bit for 2001. In the US, the question in 1992 uses the retrospective question as a reference point and asks: “What about the next 12 months? Do you expect the nation’s economy to get better, get worse, or stay the same?” Respondents were not asked about degree, i.e., “a lot better” or “a lot worse.” The exact same question was used in the post-election wave. The question used in the 1996 and 2000 pre-election surveys was quite similar to what was used in 1992. As noted in the text, the item was not asked in either the 1996 or 2000 post-election survey.

years. Using the different measures, we create five-point variables where the value 1 indicates “a lot worse” and 5 indicates “a lot better.”¹³

Partisan Preference

Of fundamental importance to our analysis is political preference. We want to know which party or candidate an individual wants to see win. The measures of partisan preference are fairly straightforward, if imperfect, and rely on questions that ask how the respondents will vote in the upcoming election.¹⁴ The questions are very much like the standard “trial heat” items used to gauge electoral preferences over the election cycle: “If there was a general election tomorrow, which political party do you think you would be most likely to support?” That was the exact wording of the question used in the pre-election wave in the UK in 1997, which was conducted 6-8 months in advance of the election (see the discussion above). The 2001 survey, by contrast, was conducted during the 30 days leading up to Election Day. In the US, the pre-election waves all were conducted over the last 63 days of the campaign and the question wording is the same in each year.¹⁵ The analyses rely on standard dichotomous measures of party and candidate preference, e.g., the Labour Preferred variable takes the value “1” for those who say they will vote for the Labour Party and “0” otherwise.

Electoral Prospects

Also fundamental to our analysis are subjective electoral prospects. We need measures of these assessments and, fortunately, we have these for each of the pre-election waves in the five years. There are only slight differences in question wording. In the UK, respondents were asked about which party they think “will form the government after the next general election” or “win in the country as a whole?”

¹³ In the US in 1992 respondents were not asked to differentiate the degree of “better” and “worse.” For that year, we create three-point variables where the value 1.5 indicates “worse,” 3 “about the same,” and 4.5 “better.” This coding makes mean economic perceptions more comparable across elections. Using a 1-3-5 coding scheme would only expand the variance and, typically, shift the mean away from 3.0.

¹⁴ The measures are imperfect because they do not take into account tactical voting. Importantly, such tendencies will tend to attenuate partisan influences on economic perceptions, as individuals vote for parties that they think will not make (as) much difference as their preferred parties.

¹⁵ Respondents were asked: “Who do you think you will vote for in the election for president?”

In the US, the question is the same in each pre-election survey: “Who do you think will be elected president in November?”¹⁶ Standard dichotomous measures are used.

An Analysis of Economic Expectations

Partisan Preferences and Economic Expectations

As we have discussed, a good amount of literature shows that economic perceptions reflect political preferences. Supporters of the incumbent party tend to be much more satisfied than opponents of the incumbent party about both the economic past and future. The pattern also is clear in our data.¹⁷ More interesting for our purposes are responses to a question from the BES that specifically asks people about the conditionality of their economic expectations, that is, assuming different electoral outcomes. In the spring, 1996 wave of the 1992-1997 panel, respondents were asked: “Supposing the Conservative Party won the next general election. Do you think that Britain’s economy would get stronger, get weaker, or stay about the same?” Respondents who replied with “stronger” or “weaker” were asked: “By a lot or a little.” The same questions were asked about the Labour Party. The results are displayed in Table 2.

-- Table 2 about here --

In Table 2, the rows indicate expectations if the Tories were to win and the columns expectations if Labour were to win. If political preferences played no role whatsoever, the expectations would be positively related, and responses would fall along the downward-sloping line from the upper left-hand corner to the lower-right. That is, respondents who thought the economy would be a “lot better” under the Tories would have thought that the economy would be a “lot better” under Labour too. Likewise, those who thought the economy would be a “lot worse” under the Tories would think the same were Labour to win. We observe a very different pattern. Indeed, the upper left-hand and lower right-hand corners of the table are sparsely populated. The data are clustered instead along the orthogonal axis, sloping upward from the lower left-hand corner to the upper-right. This tells us that political preference

¹⁶ In each year, respondents also were asked: “Do you think the presidential race will be close or will [name given] win by a lot?” Like for preferences, then, we have ordinal measures of electoral prospects in the US, which are used to probe certain analyses.

¹⁷ Results are available upon request.

matters a lot. Those who think things will be better (worse) under Labour tend to think things would be worse (better) under the Tories. Whether the result of basic perceptual psychologies or cognitive ones, the pattern is real and telling.

Partisan Preferences and Electoral Prospects

A good amount of research shows that subjective estimates of electoral prospects reflect political preferences (Granberg and Brent, 1983; Granberg and Holmberg, 1986; Granberg and Brown, 1989; Johnston, Brady, Blais, and Crete, 1992; Dolan and Holbrook, 2001). Supporters of a particular party are more likely than opponents of the party to think that the party is going to win. This tendency presumably has psychological roots and reflects the degree to which people care, following Festinger (1957).¹⁸ However, we also have learned that electoral prospects have cognitive roots and partly reflect electoral realities (see, e.g., Lewis-Beck and Skalaban, 1989; Johnston, Brady, Blais, and Crete, 1992; also see Bartels, 1988). The more lopsided an election, the smaller the difference in subjective electoral prospects. At some point reality at least partly overwhelms the expression of our hopes and cares. Both of these tendencies are evident in our data. This is clear in Table 3, which shows the results of logistic regression analyses for each election year.

-- Table 3 about here --

The dependent variable in the Table is dichotomous subjective electoral prospects, where an expected incumbent party win equals 1. The independent variables include three dichotomous preference variables, which capture support for the incumbent party, the second major party, and the third party candidates, respectively. The crucial independent variable is a linear trend variable that taps the date on which a respondent was surveyed. This follows Lewis-Beck and Skalaban (1989). Recall that in each of the three US elections respondents were interviewed over the 63 days leading up to Election Day. In the UK, the practice differed somewhat. As noted earlier, our pre-election wave for 1997 actually was conducted in the autumn of 1996, some 6-8 months in advance of the election. The date of interview

¹⁸ See Abelson (1968) for a dated but still very useful review of this perspective.

during this period does not offer insight into learning as the election cycle draws to a close, and so we do not use the data. In 2001, however, respondents were interviewed over the last 30 days before Election Day. The variable used in the analysis measures the number of days before Election Day. It is included in the analyses to capture the possible learning that might occur as the campaign unfolds.

-- Figure 1 about here --

The results in Table 3 are as we would expect. There is clear evidence of partisan differences throughout. Supporters of the incumbent party are consistently more likely than opponents of the party to expect the incumbent party to win. The number of days before the election also matters, however. The coefficients all easily exceed conventional levels of statistical significance and their signs are exactly as we should expect. That is, they are positive in years when the incumbent party won (1996 in the US, 2001 in the UK) and negative in years when the incumbent party lost (1992 and 2000 in the US). This tells us that electoral prospects increasingly reflected the ultimate outcome in each year. The pattern is clear in Figure 1, which plots the predicted probabilities for the three main partisan groups in each of the election years. Here we can see that, while prospects are powerfully driven by political preferences, people clearly learn as the campaign unfolds. Indeed, much of the learning occurs well before Election Day, and is in place before our surveys were in the field. The public largely knew early on that Clinton would easily win reelection in 1996 and the Blair and Labour would repeat in 2001. They were much more divided about the 2000 presidential election, even until the very end. Subjective electoral prospects tell us a lot about electoral realities. Let us see what they tell us about economic expectations.

‘Testing’ the Models

We know that party support matters quite a lot for economic expectations: People who support the current government are more optimistic about the future economy. What we want to know now is: Does the future control of government also matter? Specifically, do individuals’ subjective estimates of electoral prospects structure their expectations about the future economy? There is some suggestion that economic expectations are conditional. It also is clear that electoral prospects are themselves endogenous

to political preferences. Are the patterns we observe the simple result of this compounding of preferences? Or is there real evidence of conditionality?

For this analysis, we estimate statistical models of individual-level expectations and explicitly test the order of coefficients, following Table 1. There we outlined three competing models, one where expectations only reflect current government control, another where expectations only reflect future party control, and yet another where both current and future control matter. If only current party control matters, those who prefer the sitting government would be more optimistic than others about the economic future, regardless of electoral prospects. If only future control matters, we would observe that those who think their preferred party will win the upcoming election are more optimistic than those who think their preferred party will lose, regardless of current party control. If both current and future control matter, those who prefer the incumbent party and expect it to win would be the most optimistic about the future and those who do not prefer the incumbent party but expect the party to win would be the most pessimistic. In the other two categories, expectations should be middling and their exact order would depend on the relative impact of current and future party control.¹⁹

Our dependent variable is the five-point measure of pre-election economic expectations. Our independent variables capture different combinations of electoral preferences and prospects: (1) incumbent party victory expected and preferred; (2) incumbent party victory preferred and not expected; (3) 2nd party victory preferred and expected; and (4) 2nd party victory preferred and not expected. For third parties, it is not possible to estimate the interdependent effects of preferences and prospects, as the numbers of supporters expecting their party to win is just too small in each of the five election years. We do include a measure of third-party preference, however. The basic model is estimated using ordered

¹⁹ It also may be that expectations reflect combinations of electoral preferences and prospects, but that these combinations merely indicate different degrees of preference for the sitting government. According to this possibility, electoral prospects indicate intensity of expressed political preferences: Those who prefer the sitting government are expected to be optimistic about the future economy, those who also think the incumbent party will win should be most optimistic of all; Likewise, those who do not prefer the sitting government would be pessimistic, and those who think it will lose would be most pessimistic of all. The ordering for this model is straightforward and distinct from the three described in Table 1—the implied ordering using the categories in the Table, from top to bottom are: high, low-middle, high-middle, and low. There is little empirical support for this possibility, however, as we will see.

logit.²⁰ The results of estimating the basic models of pre-election expectations for each of the five years are shown in Table 4a. Results of analysis including pre-election retrospections and other variables are essentially the same.²¹

-- Tables 4 about here --

Focus to begin with on the results for the 1992 presidential election in the first column of Table 4a. We observe two clear patterns. First, party support matters. The coefficients for people who support the incumbent party are positive. The coefficients for people who oppose the incumbent party are significantly smaller than those for incumbent party supporters. This is consistent with what previous research has shown. Second, electoral prospects also matter. That is, the coefficients among both incumbent party supporters and incumbent party opponents differ according to subjective forecasts of the outcome. Among supporters, those who think the incumbent party will win are significantly ($p < .05$) more optimistic about the future economy than those who think the incumbent party will lose. The same is true for opponents.²² This is strong evidence of conditionality. The four coefficients can be clearly ordered, as shown in the first column of Table 4b. The order is exactly as we would predict if economic expectations reflect both current and future party control, and where current control is more dominant.

Much the same is true in the other years. This can be seen in the 2nd-5th columns of Table 4b. The order of the coefficients is as we would predict for the party-conditional model in each year but for 1997 in the UK. In that year, economic expectations are not conditional. That is, current party control matters and future control does not, at least not reliably. The pattern is exactly what we should expect given the timing of the pre-election survey, 6-8 months before the election. As discussed earlier, who controls government 6-8 months in the future can have only limited consequence for economic activity during the next year (recall that the measure of expectations taps perceptions of the next 12 months).²³ Regardless of the details in this particular year, pre-election economic expectations clearly are conditional

²⁰ We are not entirely convinced of its appropriateness in this case, as we think that underlying economic expectations are continuous. In any event, the results are substantively the same using ordinary least squares.

²¹ These are available upon request.

²² The corresponding p -value equals .099.

²³ There are other possible explanations (see Clarke, Sanders, Stewart and Whiteley, 2004).

in four of the five elections analyzed here. In these years, expectations among incumbent party supporters and incumbent party opponents *always differ significantly* in accordance with their subjective forecasts of the election outcome. To be absolutely clear, the pattern holds in all seven cases where the comparison is possible (all but for incumbent party supports in the 1996 Presidential election). This is evident in Table 4b, which indicates both the ranking of coefficients and their relative significance.

-- Tables 5 about here --

Now let us consider post-election expectations. They can tell us something about what structures economic expectations when there is little uncertainty about future government control. This provides a useful basis for comparison with what we observe prior to elections, where there is uncertainty about the political future. Table 5a reports the results of estimating the model of post-election expectations in the three election years. Table 5b describes the ordinal ranking of coefficients. Here we can see that party control dominates post-election expectations. In each year, those who preferred the winning party were more optimistic about the economic future than those who preferred the losing party. The pairs of coefficients for incumbent party supporters and incumbent party opponents are not significantly different in five of six cases.²⁴ Pre-election uncertainty simply does not matter after the election. This is exactly as we expect. The pattern implies that the conditionality of economic expectations prior to elections is not spurious or the mere artifact of some other variable that is present both before and after the elections.

Notice also that the post-election orderings differ fundamentally to what we observe prior to the elections in the US in 1992 and the UK in 1997, where the incumbent governments were defeated. Comparing Tables 4b and 5b, we can see that the order of coefficients quite literally flipped in each of these years. This is indisputable evidence that economic expectations are endogenous to politics and not the other way around. While people's pre-election preferences, by definition, remained unchanged, their economic expectations were changed and brought perfectly in line with preferences for the new government. The pattern of results fits perfectly with our conjecture: Prior to elections, where there is

²⁴ The one exception is for those who did not prefer the incumbent party in the 1992 US election. Those who prior to the election thought the incumbent party would lose were significantly more optimistic about the economy after the election than those who thought the incumbent party would win.

uncertainty about the electoral future, economic expectations reflect both current and likely future party control; after elections, where there is little electoral uncertainty, economic expectations only reflect current control.

Discussion and Conclusion

Much research addresses the rationality of economic expectations.²⁵ Do they reflect information about the future? What kinds of information are important? How does politics figure in? While these are big questions, the goal of our research here has been comparatively modest: To assess the effects of political uncertainty relating specifically to upcoming elections. Do people see the electoral future as it unfolds before them? Do people use what they see?

The results of our exploration indicate that they do. Although electoral forecasts are not perfect—there is evidence of strong partisan bias—it is clear that people learn about the election outcome as the election cycle evolves. Indeed, it appears that the bulk of this learning is complete even before the general election campaign begins, i.e., approximately two months before Election Day in the US and one month before in the UK. The information people acquire also appears to condition economic expectations. That is, individuals' forecasts of future government control matter. Current control matters even more, and this appears quite reasonable. There is good reason to suppose, after all, that the economy over the next 12 months is *most* dictated by who controls the government at the moment, not who will be elected in a month or two and take office sometime thereafter. The balance of influence on expectations over the next five years, for instance, may be very different indeed. The pattern of results is not easily explained by “psychological” mechanisms, such as Campbell, et al.’s (1960) perceptual screen or Festinger’s (1957) cognitive consistency. The pattern strongly suggests that the partisan “contamination” of economic expectations has a meaningful cognitive component: People appear to think that party control has real effects on economic policy *and* performance. This is of obvious importance.

²⁵ Especially see Krause (2000). Also see Alesina, Roubini, and Cohen (1997).

The findings have other implications. We already knew that the endogeneity of economic perceptions to political preferences makes it almost impossible to disentangle causality in cross-sectional analyses relating the two. The evident endogeneity of economic expectations to preferences and expected election outcomes not only underscores this point, it serves to complicate aggregate time-serial analyses as well. That is, expectations anticipate and thus are effectively caused by outcomes, not the cause of these outcomes per se. *This does not help explain the dynamic relationship between expectations and political judgments leading up to elections*, as expectations will tend to increase whether we are re-electing the incumbent government or giving it the boot. However, it may help explain Suzuki's (1992) finding of an electoral cycle in expectations, as we argued above.²⁶ In brief, as the election approaches and the ultimate outcome becomes clearer, the majority becomes more optimistic about the economic future. The expectation obviously will apply in majoritarian systems where there actually are majorities, e.g., it would not seem to include the US in 1992 or 2000 or the UK in most years, where parties almost always win only with pluralities.

The model does not apply only to elections—it generalizes across all knowable sources of uncertainty about future government control. As noted at the very beginning of the paper, there always is some possibility that the current leadership will lose control at any particular point in time $t+1$. It is a structural feature of most parliamentary democracies, where governments actually may be tossed out of power at any point in time. It is less structural, though still possible, in other systems. The point is that voters may take this uncertainty into account. This may be particularly true when there is a nontrivial possibility of losing control, owing to a vote of no confidence, scandal, or even strategic election timing itself (Smith, 2003; Kayser, 2005). The possibilities can be directly tested.

The implications of the research may run deeper still. It may be, after all, that the objective economy itself is endogenous to preferences and elections. To the extent expectations structure behaviour, the electoral cycle in economic expectations may have real economic consequences (Matusaka and Sbordone, 1995). Disentangling such an effect requires a lot more work, of course. For

²⁶ It also may help explain the disjuncture between the objective and subjective economies.

now, we can conclude that the effects of politics are only on the perceptual. These effects, as have seen, are very real.

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**Table 1. Pre-Election Preferences, Electoral Prospects, and Economic Expectations:
Theoretical Possibilities**

	Current Party Control	Future Party Control	Both Current and Future
Incumbent Victory Preferred/Expected	High	High	High
Incumbent Victory Not Preferred/Expected	Low	Low	Low
Incumbent Victory Preferred/Not Expected	High	Low	Middling
Incumbent Victory Not Preferred/Not Expected	Low	High	Middling

Note: Cells indicate mean economic expectations, where high scores reflect optimism.

Table 2. Conditional Economic Prospections, BES 1997 (Spring 1996)

<i>If Tories win</i>	<i>If Labour Wins</i>					Total
	Lot better	Little better	No diff	Little worse	Lot worse	
Lot better	0	1	8	10	9	28
Little better	2	32	94	157	21	306
No difference	7	146	440	186	16	795
Little worse	13	166	109	36	9	333
Lot worse	34	39	23	3	4	103
Total	56	384	674	392	59	1,565

Note: Tau b = -.41

Table 3. An Analysis of Electoral Prospects, Logit Results

	<i>Expected Winner (Incumbent Party=1)</i>				
	NES 1992	NES 1996	NES 2000	BES 1997	BES 2001
Days Before Election	.016 (.003)	-.012 (.004)	.010 (.002)	---	-.025 (.005)
Incumbent Party Preferred	1.34 (.12)	2.80 (.32)	1.70 (.13)	1.94 (.26)	1.50 (.12)
2 nd Party Candidate Preferred	-1.18 (.13)	-.47 (.17)	-1.34 (.15)	-.91 (.30)	-.00 (.11)
3 rd Party Candidate Preferred	-.29 (.22)	.30 (.19)	.84 (.33)	.35 (.31)	.88 (.17)
Constant	-1.36 (.12)	1.81 (.20)	-.78 (.14)	-1.91 (.24)	1.75 (.12)
Observations	2485	1714	1807	1174	4810
Log Likelihood	-1275	-544	-948	-472	-1700
Probability	.000	.000	.000	.000	.000
Pseudo R-squared	.17	.18	.24	.21	.07

Table 4a. Electoral Preferences and Prospects and Pre-Election Economic Expectations, Ordered Logit Results

	<i>Dependent Variable: Pre-Election Prospections</i>				
	1992 NES	1996 NES	2000 NES	1997 BES	2001 BES
Incumbent Victory Preferred/Expected	1.00 (.12)	.72 (.13)	.76 (.12)	1.81 (.23)	1.20 (.08)
2 nd Party Victory Preferred/Not Expected	-.03 (.19)	-.51 (.16)	-.36 (.23)	.14 (.35)	-.83 (.09)
Incumbent Victory Preferred/Not Expected	.67 (.16)	---	.29 (.21)	1.48 (.24)	.72 (.19)
2 nd Party Victory Preferred/Expected	.28 (.10)	-.07 (.22)	.36 (.13)	-.06 (.19)	.10 (.17)
Third Party Victory Preferred	.30 (.18)	-.32 (.26)	-.29 (.32)	.35 (.23)	-.24 (.10)
Observations	2345	1683	1740	1122	4516
Log likelihood	-2370	-1768	-2034	-1217	-5986
Probability	.000	.000	.000	.000	.000
Pseudo R-squared	.02	.03	.07	.06	.06

**Table 4b. Electoral Preferences and Prospects and Economic Expectations:
A Summary of Pre-Election Results (Ordinal Rankings of Coefficients)**

	NES 1992	NES 1996	NES 2000	BES 1997	BES 2001
Incumbent Victory Preferred/Expected	1	1	1	1 ^b	1
Incumbent Victory Not Preferred/Expected	4	4	4	3 ^c	4
Incumbent Victory Preferred/Not Expected	2	---	3 ^a	2 ^b	2
Incumbent Victory Not Preferred/Not Expected	3	3	2 ^a	4 ^c	3

^a Rankings are not significantly different.

^b Rankings are not significantly different.

^c Rankings are not significantly different.

Table 5a. Electoral Preferences and Prospects and Post-Election Economic Expectations, Ordered Logit Results

	<i>Dependent Variable: Post-Election Prospections</i>		
	1992 NES	1997 BES	2001 BES
Incumbent Victory Preferred/Expected	-.07 (.13)	-.79 (.19)	1.18 (.09)
2 nd Party Victory Preferred/Not Expected	.36 (.20)	.14 (.31)	-1.12 (.11)
Incumbent Victory Preferred/Not Expected	.24 (.17)	-.99 (.20)	1.01 (.23)
2 nd Party Victory Preferred/Expected	.83 (.11)	.54 (.12)	-1.25 (.19)
Third Party Victory Preferred	.49 (.19)	-.16 (.17)	-.11 (.12)
Observations	1973	963	3293
Log likelihood	-1933	-1702	-4156
Probability	.000	.000	.000
Pseudo R-squared	.02	.03	.08

**Table 5b. Electoral Preferences and Prospects and Economic Expectations:
A Summary of Post-Election Results (Ordinal Rankings of Coefficients)**

	NES 1992	BES 1997	BES 2001
Incumbent Victory Preferred/Expected	4 ^b	3 ^c	1 ^e
Incumbent Victory Not Preferred/Expected	2 ^a	2 ^d	3 ^f
Incumbent Victory Preferred/Not Expected	3 ^{a b}	4 ^c	2 ^e
Incumbent Victory Not Preferred/Not Expected	1	1 ^d	4 ^f

^a Rankings are not significantly different.

^b Rankings are not significantly different.

^c Rankings are not significantly different.

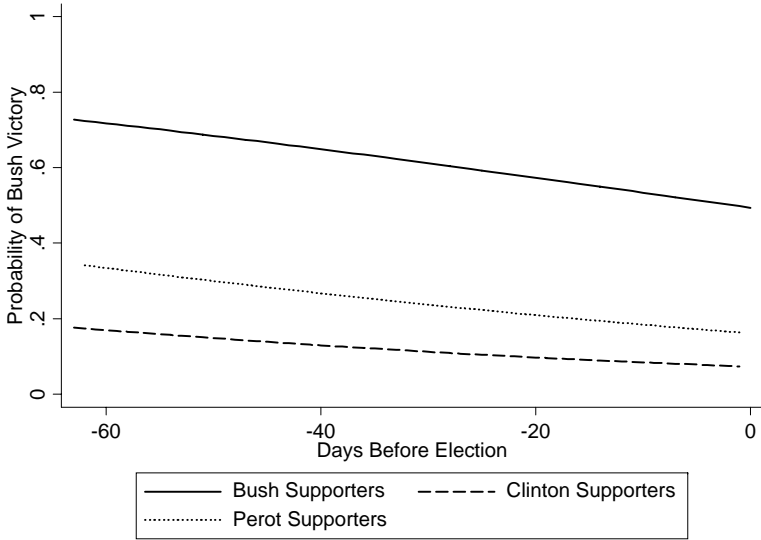
^d Rankings are not significantly different.

^e Rankings are not significantly different.

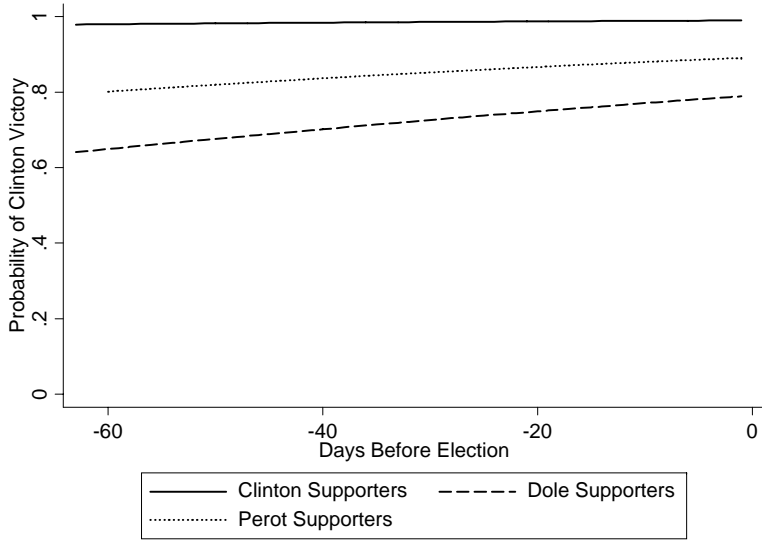
^f Rankings are not significantly different.

Figure 1: Predicted Probabilities of Incumbent Victory during the Fall Campaign,

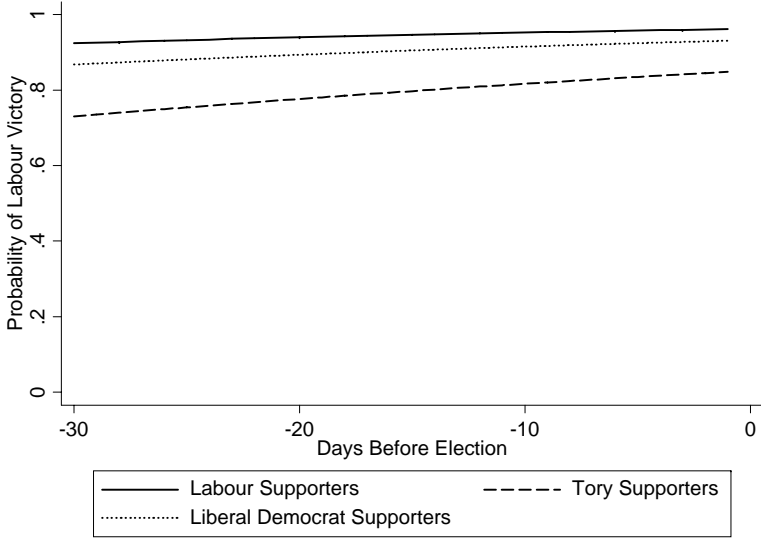
1992 US



1996 US



2001 UK



2000 US

