

Research Note

Fiscal Policy and Presidential Elections, 1880-1992*

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Fiscal policy is both a contributor to and an effect of presidential electoral fortunes in the United States. An analysis of presidential election results between 1880 and 1992 shows that, except in periods of major war, an increase in the ratio of federal outlays to GNP has a negative effect on presidential reelection independent of inflation or growth rate. Yet even though faced with voters who punish expansion and reward cutbacks, presidents do not react consistently. At most, there is evidence that presidents leave spending levels about the same in their first term and act more boldly to change spending levels up or down only after reelection.

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With the notable exception of Niskanen and Peltzman,¹ scholarly work on the effects of economic factors on election results focuses on macro-

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1. William Niskanen, "Economic and Fiscal Effects on the Popular Vote for President," in *Public Policy and Public Choice*, ed. D. W. Rae and T. J. Eismeier (Princeton: Princeton University Press, 1979); Sam Peltzman, "Voters as Fiscal Conservatives," *Quarterly Journal of Economics*, 107 (1992): 327-61; Sam Peltzman, "Economic Condi-

economic performance, principally economic growth and inflation, to the neglect of fiscal policy. This paper builds on our previous work, showing that fiscal policy exerts a significant effect on election results independently of economic conditions.² We begin with a simple model in which, absent a war or equivalent national emergency, presidential reelection is a negative function of fiscal expansion. We propose an economic rationale for the hypothesis, and discuss some potential objections. In the second section we use regression analysis to see if the relationship between fiscal policy and election outcome holds up when controlling for inflation and economic growth. The statistical results suggest that it does. Next, we focus on fiscal policy, by turns as a contributing cause and an effect of presidential electoral fortunes. This tabular analysis permits us not only to evaluate the relationship between fiscal policy and election results but also to isolate the exceptions, looking for patterns among them. Finally, we turn to the relationship between fiscal policy and election results for new and reelected presidents to determine whether there is evidence of learning on their part.

I. Fiscal Policy and Presidential Election Results

We suggest that *fiscal expansion*, measured as an increase in the ratio of federal outlays to Gross Domestic Product, has a *negative* effect on presidential reelection. Note that this ratio, which we call *F*, is a measure of *relative*, not *total* federal spending. Federal outlays may rise absolutely without raising *F* if expenditures do not grow faster than Gross Domestic Product. For the remainder of this paper, the terms "federal expenditures" and "federal spending" are used in this relative sense.

The theoretical rationale for this fiscal hypothesis is borrowed from

tions and Gubernatorial Elections," *Papers and Proceedings of the 99th Annual Meeting of the American Economic Association*, 7 (1987): 293-97. Two strong representatives of the economics of elections literature that omit fiscal policy are Ray C. Fair, "The Effect of Economic Events on Votes for President: 1984 Update," *Political Behavior*, 10 (1988): 168-79; and Michael Lewis-Beck, *Economics and Elections: The Major Western Democracies* (Ann Arbor: The University of Michigan Press, 1988). For a critique of economic models of elections, see Jay P. Greene, "Forewarned Before Forecast: Presidential Election Forecasting Models and the 1992 Election," *PS: Political Science*, 26 (1993): 17-20.

2. Alfred G. Cuzán and Charles M. Bundrick, "Selected Fiscal and Economic Effects on Presidential Elections," *Presidential Studies Quarterly*, 22 (1992): 127-34. See also Alfred G. Cuzán and Richard J. Heggen, "Expenditures and Votes: In Search of Downward-Sloping Curves in the United States and Great Britain," *Public Choice*, 45 (1985): 19-34; and Alfred G. Cuzán and Richard J. Heggen, "A Fiscal Model of Presidential Elections in the United States: 1880-1980," *Presidential Studies Quarterly*, 14 (1984): 98-108.

economics. We assume that the ratio of federal spending to GDP is analogous to a "price" which the federal government exacts on the private economy for its services. Like any good bought in the market, as the "price" charged by the federal government goes up, something similar to the first law of demand operates. *Ceteris paribus* (absent, e.g., a war or equivalent national emergency), when this "price" goes up between presidential elections, more voters opt not to "buy" another term from the incumbent; they cast their votes for opposition party candidates instead.³

Figure 1 illustrates this hypothesis. Along the horizontal axis lies *F*, the percent of Gross Domestic Product spent by the federal government. *V*, the percent of the vote going to the incumbent party's candidate, is shown on the vertical axis. A downward-sloping "support" function summarizes the hypothesis that, with increases in *F*, the incumbent's vote share falls. An equilibrium ratio of spending to GDP would be found at or above *F**. This is the maximum the federal government can spend without the incumbents receiving less than 50 percent of the vote, which in a two-way race would cost them the election.

We hasten to clarify that Figure 1 should not be interpreted as saying that voters view all spending in a negative light. Rather, in keeping with what economists call "the law of marginal utility," the model assumes that as the quantity of government goods and services increases, each *additional* unit is worth less and less to more and more voters. It is the *last* or *marginal* dollar that an increasing percentage of the public would rather consume or invest themselves rather than have the government do it for them. This proposition is supported by the findings of Sam Peltzman, who conducted a sophisticated statistical study of the electoral consequences of real per capita spending and taxes at the federal and state levels in the post-World War II period:

3. For evidence on similar fiscal effects on congressional and state gubernatorial elections see Peltzman, "Economic Conditions and Gubernatorial Elections," and "Voters as Fiscal Conservatives." Also, we have found that in Latin America fiscal expansion is associated with more extreme manifestations of popular dissatisfaction with the incumbents, such as military coups, revolution, and general political violence. See Alfred G. Cuzán and Charles M. Bundrick, "Economic Correlates of Political Instability in Latin America: Findings and Implications," *Southeastern Political Review*, 21 (1993): 349-63. See also Alfred G. Cuzán and Richard J. Heggen, "Persuasion, Coercion, and Scope: A Micro-Political Explanation of the 1979 Nicaraguan Revolution," *Latin American Research Review*, 17 (1982): 156-70; and Alfred G. Cuzán, "Fiscal Policy, the Military, and Political Stability in Iberoamerica," *Behavioral Science*, 31 (1986): 226-38.

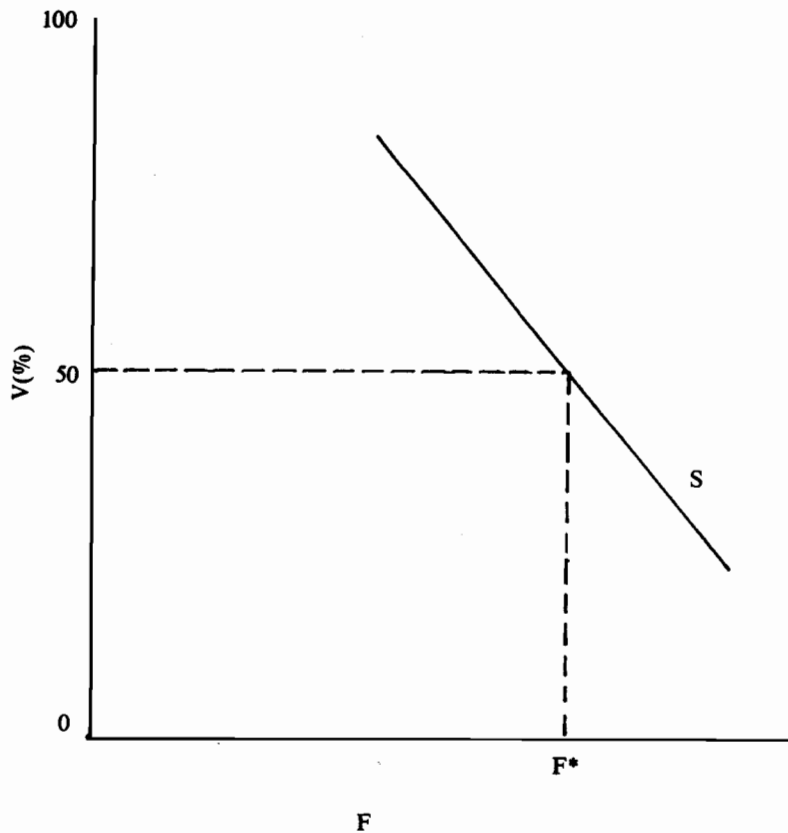


Figure 1. Expenditure-Votes Relationship

my best estimate is that voters are treating the marginal dollar of federal spending as essentially worthless. . . . That is, there is no net political reward for a one dollar increase in income matched by a dollar increase in federal spending.⁴

The support function is not static, however. During this century, it seems to have migrated to the right—shifting F^* to a higher level—in response to both temporary conditions and long-term evolutionary changes in the public's evaluation of the quality of federal goods and ser-

4. Peltzman, "Voters as Fiscal Conservatives," p. 338.

vices and the proper role of government in society.⁵ The temporary effect of war is straightforward. As an anonymous reviewer of this journal put it: "during most wars (Vietnam is an obvious exception), voters think that the [extra] spending is justified—i.e., the [marginal] benefits outweigh the [marginal] costs." Moreover, victory in a major war may give both presidents and voters the idea that government is capable of accomplishing domestic tasks on a grander scale than previously thought. Along the same lines, success in one area of governmental activity, as in the space program, invites experimentation in other areas. Also, the public may have become convinced that certain ends, such as income security and health care for the poor and elderly, could best be accomplished through government redistribution across income classes and generations. Whatever the combination of reasons, it seems as if, until quite recently, the long-term tendency has been for the support curve to shift rightward, toward a higher F^* . Whether the Republican congressional victory of 1994 signals a reverse shift in public attitudes remains to be seen.

The reader who, for the sake of argument, has suspended disbelief to this point may now interject a number of objections. It can be argued that federal *taxes*, not *spending*, should be construed as the "price" of government. But that would be an error. For one thing, *taxing* is not the only means for government to raise revenues. A significant portion of spending is financed by borrowing. In some countries, *monetary expansion*, i.e., inflation, is another source. But the most important reason why the focus is on spending and not on taxes is that *any* expenditure, by government or individuals, incurs what economists call an "opportunity cost." Every additional dollar spent by government for any purpose is one dollar less available for private spending on some *other* purpose in the market economy. Thus, according to Peltzman:

The notion that voters like government spending but dislike taxes has become conventional wisdom. . . . This conventional wisdom, however, is wrong. . . . [T]here is no evidence at all for the notion that spending is politically beneficial. [In Senate elections], as with Presidential elections, the one statistically reliable bad is spending, not taxes.

[V]oters dislike state as well as federal spending. . . . [S]pending bears all the negative political weight. This is roughly consistent

5. For an elaboration of these points, see Cuzán and Heggen, "Expenditures and Votes."

with the results for federal spending. At both federal and state levels, voters seem to focus their displeasure on the growth of permanent expenditures rather than explicit taxes.⁶

Still another objection is that the model does not distinguish between categories of spending. Here again, Peltzman presents statistical evidence showing no difference in voters' aversion to additional federal expenditures after they are disaggregated into military and civilian components. When it comes to federal spending, "at the margin, a dollar is a dollar. Whether it is spent on the military or civilian sector or on 'public' goods or private goods (transfers), the marginal dollar is equally poisonous politically." At the state level, however, one set of expenditures is more unpopular: "voters distinguish welfare spending from everything else. They dislike spending generally, but dislike welfare spending about three times as much as other kinds."⁷

In this paper, we characterize fiscal policy by two variables derived from F . They are: F' , the percent change in F between election years and F'' , the arithmetic change in F' between election years. F' indicates whether spending has risen or fallen or remained the same between presidential election years. (For the purpose of this paper, if F' or F'' ranges between -2 and $+2$, it is regarded as equal to zero.) F'' measures the change in F' during the current presidential term relative to the previous presidential term. In effect, it indicates whether change in spending is accelerating or decelerating or continuing at the same rate. When F'' is positive, it means that spending either rose in the current presidential term or fell by a smaller percentage relative to the previous presidential term. On the other hand, when F'' is negative, it signifies a deceleration in spending, which means that spending in the current presidential term slowed down relative to the previous term, either by rising at a smaller rate or actually falling.

During the period covered by this study (1880-1992), federal spending ranged from a low of less than 3 percent of GDP around the turn of the century to a high of over 40 percent during World War II (see the Appendix). In 1992, F stood at 23.2 percent, a peacetime record high. F increased more than twice as often as it decreased. In 1992, the last year of the Bush administration, F' was nearly 7 percent, the largest increase in federal expenditures since 1976. Also during this period, F'' was positive as many times as it was negative, i.e., there were about the same

number of accelerations as decelerations. And, since 1940, accelerations and decelerations have alternated between presidential terms.

Taken together, F' and F'' define three types of fiscal policy: expansionary, cut-back, and steady state. An *expansionary* fiscal policy is one in which F' is positive and F'' is not negative. When both variables are positive, F is growing either at an accelerated rate, or after a pause or decline in the previous term. If F' is positive and F'' is zero, F is expanding at the same rate as in the previous term. Either combination represents an unambiguous fiscal expansion.

Fiscal policy is defined as *cut-back* when either F' or F'' is negative. The case is straightforward if F' is negative: this happens whenever there has been a decrease in F , the ratio of federal outlays to Gross Domestic Product. Two other combinations represent not actual decreases in this ratio, but *decelerations* in the rate of spending growth. If F' is positive and F'' is negative, it means that while spending has gone up in the current term, the increase is smaller than in the previous term. The case is similar if F' is zero and F'' is negative: this occurs when, after an increase in spending during the previous term, there is no change in spending during the current term. Although in neither case has F actually shrunk, the upward momentum has been slowed or stopped. Note that in these two cases the deciding variable is F'' . When F'' is negative, the voters are getting some fiscal relief.

Two combinations exhaust the remaining possibilities. One is where F' is zero and F'' is positive. This happens whenever spending has taken a pause after a decline in the previous term. Arithmetically, this adds up to an acceleration, and logical consistency would require us to expect that such a policy would not be to the voters' liking. However, we are not entirely comfortable with this conclusion. The voters' verdict could depend on whether the resulting level of spending was above or below F^* . The problem is that since F^* cannot be known in advance, we risk getting trapped in circular reasoning if we attempt to explain the election outcome by saying that the incumbents won because F was below F^* , or lost because F was greater than F^* . We think that it is logically safer, if theoretically dubious, to stick to the arithmetic conclusion that *any* acceleration will be punished at the polls. Fortunately, this may be one of those theoretical conundrums without much empirical import. As the Appendix shows, there is not a single case so far where F' is zero and F'' is positive.

Neither is there a case where both F' and F'' fall between -2 and $+2$. This would happen if spending remained the same for two consecutive terms, and amounts to a *steady state* policy. Like the previous combination, its electoral effect would *also* depend on whether F is above or below equilibrium.

6. Peltzman, "Voters as Fiscal Conservatives," pp. 339-40 and 347-49.

7. Peltzman, "Voters as Fiscal Conservatives," pp. 346 and 352.

Having classified fiscal policy according to various combinations of F' and F", we can proceed to test the following hypotheses:

- H1:** Fiscal expansion will lead to the defeat of the president or, if he declines to run again, of his party's presidential candidate.
- H2:** Fiscal cut-back will lead to the re-election of the president or, if he is not running, to the election of his party's candidate.

II. A Multi-Variate Analysis

Even if fiscal policy had the hypothesized effect on presidential elections, its impact could be diluted or trumped by more powerful determinants. The economics of elections literature suggests two: economic growth and inflation. We test our hypotheses for these economic effects using the following regression equation. It specifies that the outcome of presidential elections for the incumbent party (reelection or defeat) is a function of three variables: economic growth, inflation, and fiscal policy.⁸

$$\text{ELECTION} = a_0 + b_1 \text{GROWTH} + b_2 \text{PRICES} + b_3 \text{FISCAL} + e$$

where

- ELECTION = 1 if the outcome is reelection, 0 if defeat;
 GROWTH = annual rate of real per capita GDP through the first three quarters of the presidential election year;
 PRICES = the absolute value of the inflation rate in the fifteen quarters before the presidential election;
 FISCAL = 1 if fiscal policy is expansionary, 0 if cut-back;
 a = a constant term (intercept);
 b1, b2, b3 = regression parameters; and
 e = a random error term.

Since ELECTION takes only two values (reelection or defeat), we estimated parameters using both Ordinary Least Square and Probit regression methods. The results are shown in Table I. Surprisingly, the strongest variable using both is FISCAL. In fact, it is *the only* variable where the ratio of the parameter estimate to the standard error is greater than

8. The definitions and data for the economic variables were borrowed from Ray C. Fair, "The Effect of Economic Events on Votes for President: 1992 Update," *Cowles Foundation Discussion Paper No. 1084* (New Haven, CT: Cowles Foundation for Research in Economics at Yale University, October 1994). Many thanks to Professor Fair for granting permission, in a telephone conversation on June 12, 1995, to use these data.

Table I. Ordinary Least Squares and Probit Regression Estimates of U.S. Presidential Election Outcomes, 1880-1992

	ESTIMATE OF REELECTION OR DEFEAT		ESTIMATE OF % VOTE
	OLS ESTIMATE	PROBIT ESTIMATE	OLS ESTIMATE
GROWTH	0.042 (0.029)	0.100 (0.067)	0.369 (0.269)
PRICES	0.015 (0.049)	0.035 (0.099)	-0.448 (0.460)
FISCAL	-0.531 (0.165)	-0.811 (0.293)	-2.061 (1.537)
Intercept	-0.021 (0.255)	-0.134 (0.485)	50.736 (2.369)
Model Fit ^a	0.32	26.77	0.16
N	29	29	29

Note: Standard errors shown in parentheses. The data consist of the entire population of presidential elections from 1880-1992. Hence, significance tests are not appropriate. However, any variable where the parameter estimate does not exceed the standard error by a ratio of at least 2:1 is a prime candidate for discarding as "insignificant."

^aFor assessing model fit, *adjusted R square* values are given for the OLS models and a $-2 \log$ likelihood value for the probit model.

2:1, a reasonable cut-off point for assessing the statistical "significance" of a variable when the entire population, not a sample, is being analyzed.⁹ Also included in Table I is the OLS estimates for the percent of the vote going to the incumbent party's presidential candidate. In this case, none of the variables fares well.

We concede that other measures of economic growth and inflation may yield different results. Those used here were developed by Ray Fair for inclusion in a more complex model used to predict presidential elections beginning in 1916. (When previous elections are included, economic models do not perform well.) Fair experiments periodically with alternative definitions of economic growth and inflation until he finds the ones that best predict the outcome of the most recent presidential election.¹⁰ Since our analysis extends over a longer period and includes

9. See Douglas A. Hibbs, *Mass Political Violence: A Cross-National Causal Analysis* (New York: John Wiley and Sons, 1973).

10. See, e.g., Ray C. Fair, "The Effect of Economic Events on Votes for President: 1984 Update," *Political Behavior*, 10 (1988): 168-79.

Table II. The Impact of Fiscal Policy on Presidential Elections

RESULT FOR INCUMBENTS	FISCAL POLICY		TOTAL
	CUT-BACK	EXPANSIONARY	
Re-election	13	3	16
Defeat	3	10	13
Total	16	13	29

No significance tests are performed in this or the next three tables because the entire population of cases is included.

fiscal policy, a variable not present in Fair's model, some deviation from his results is to be expected.¹¹ It is the magnitude of the deviation that is surprising.

III. Fiscal Policy and Election Outcomes

Having shown that fiscal policy is a predictor of presidential election outcome when controlling for both economic growth and inflation, we now proceed to examine bi-variate relationships in detail. Table II displays the cross-tabulation of fiscal policy and election outcome. In 81 percent of the cases (13 out of 16) fiscal cut-back is associated with incumbent reelection. Conversely, in 77 percent of the cases (10 of 13), fiscal expansion is associated with defeat of the incumbents. Altogether, in just under 80 percent of the cases (23 out of 29), fiscal policy is associated with presidential election in the hypothesized manner.

A look at the exceptions reveals interesting patterns. A cut-back policy was associated with defeat three times: 1884, 1912 (when Teddy Roosevelt bolted the Republican Party to make an independent run), and 1980. The first two came after a string of Republican administrations; it may be that voters grow restless after four or five consecutive terms by the same party. The third exception is Jimmy Carter's failure to win reelection. The other three exceptions are of the opposite type, cases where the incumbents were returned to the White House despite carrying out a policy of fiscal expansion: 1916, 1944, and 1984. The first two occurred at times when the world was at war and the U.S. was about to enter the conflict or deeply immersed in it. The third exception is Ronald Reagan's first term.

11. To aid researchers who may wish to replicate our results, all data are shown in the Appendix.

Ironically, the Carter administration and Reagan's first term are mirror images of each other. According to our model, Carter's cut-back policy should have won while Reagan's first-term expansionary policy should have lost at the polls. The reverse was true. The same back-to-back reversal also appears with the elections of 1912 and 1916. It is tempting to speculate that voters, having punished one president without fiscal cause (Taft or Carter), were inclined to be more lenient with his immediate successor (Wilson or Reagan). Be that as it may, the Taft-Wilson and Carter-Reagan pairs account for four of the six exceptions.

The exceptional cases are not distributed randomly along the time series. In fact, the pattern of their distribution suggests three types of influences: voter weariness with the same party (the Republicans) after three or more consecutive terms in office; voter tolerance of fiscal expansion during a world crisis; and two consecutive "errors" in the opposite direction, both "errors" associated with interruptions in Republican control of the presidency. The first two of these influences make sense. The third might suggest a corrective mechanism running counter to fiscal rationality.

IV. The Impact of Election Outcome on Fiscal Policy

The results of our analysis suggest that voters punish fiscal expansion and reward fiscal cut-back, that they are, in Peltzman's phrase, "fiscal conservatives." If voters behave this way, it would seem that professional politicians whose business it is to win elections would draw the appropriate lesson: to win reelection, pursue a fiscal cut-back policy. Yet the lessons to be drawn are not that simple. As the discussion of Figure 1 noted, support for federal spending does shift to higher levels over time, substantially increasing during short periods during a world war and also rising incrementally in response to favorable demographic, social, and ideological changes. No one can say for sure where F^* (i.e., the maximum federal spending consistent with reelection) is at any one moment.

Furthermore, there is probably a built-in institutional bias against cutting spending. On the one hand, every program operates within an "iron triangle" linking the relevant bureaucracy, congressional committee(s) and interest groups. Even when a president wants to cut expenditures the Congress can refuse to go along with him. True, the president can wield the veto pen, but the effectiveness of this weapon is limited when Congress sends him catch-all appropriations or continuing resolution bills. On the other hand, it is natural for any president to want to test the limits of spending to finance projects he wishes future historians to credit him with. Even a president as enthusiastic about cutting federal spending

Table III. The Impact of Election Outcome on Fiscal Policy

FISCAL POLICY AT YEAR $t + 1$	RESULT FOR INCUMBENTS AT YEAR t		TOTAL
	RE-ELECTION	DEFEAT	
Cut-back	8	7	15
Expansionary	8	5	13
Total	16	12	28

as Ronald Reagan had his own pet projects, such as the Strategic Defense Initiative and the War on Drugs.

Nevertheless, we would expect presidents to make two kinds of fiscal adjustments in response to elections:

H3: Presidential reelection will be followed by fiscal expansion.

H4: Defeat of the incumbent party's candidate will be followed by fiscal cut-back.

The rationale for this pair of hypotheses is that, after a reelection, the incumbents will be tempted to test voter tolerance for fiscal expansion, but after a defeat the new president will be more fiscally cautious than his predecessor.

Table III compares election result at year t with fiscal policy at year $t + 1$, where t is election year and $t + 1$ is the following election year. The data do not support the hypothesis: the 28 cases are randomly distributed around the table. A president is just as likely to pursue an expansionary as a cut-back policy. Thus, there is no relation between current fiscal policy and the results of the preceding election.

The next step is to see whether either of the two variables that characterize fiscal policy, i.e., F' and F'' , is related to the previous election outcome. These results appear in Tables IV and V, respectively. Table IV shows that there is a marginal relationship between election result at t and F' at $t + 1$ (i.e., between the outcome of an election and fiscal policy in the succeeding term). However, the results are largely negative for the hypothesis. Following reelection, incumbents are just as likely to spend more as to spend less. For their part, new presidents are more likely to increase spending than to cut it. These findings are contrary to the hypothesis.

There is, however, a difference between new administrations and reelected incumbents with respect to F' that, though feeble, is interesting in itself. The three cases where spending stayed the same during a presidential term occurred in new administrations. Once reelected, incum-

Table IV. The Impact of Election Outcome on F'

F' AT YEAR $t + 1$	RESULT FOR INCUMBENTS AT YEAR t		TOTAL
	RE-ELECTION	DEFEAT	
$F' < 2$	7	3	10
$-2 < F' < 2$	0	3	3
$F' > 2$	9	6	15
Total	16	12	28

Table V. The Impact of Election Outcome on F''

F'' AT YEAR $t + 1$	RESULT FOR INCUMBENTS AT YEAR t		TOTAL
	RE-ELECTION	DEFEAT	
$F'' < 2$	5	7	12
$-2 < F'' < 2$	0	2	2
$F'' > 2$	11	3	14
Total	16	12	28

bents feel strong enough to make changes in spending. They may increase it or decrease it, but they *never* keep it at the same level. The rare cases of a "hands-off" policy occur only under a new administration. This suggests that new arrivals to the White House feel less secure politically and thus more likely to tread gingerly over fiscal policy. Given the small number of cases, though, one should not make too much of these minor statistical differences.

Table V supports the hypothesis. After a reelection, incumbents are more than twice as likely to accelerate as to decelerate spending growth, while the opposite is true for new presidents. As with F' in Table IV, there is no case of zero change in F'' after reelection. Zero change occurs only under a new administration. Again, political insecurity may have something to do with greater fiscal timidity.

The discrepancy between Table V and Table III requires explanation. How can it be that there is no relationship between election outcome at t and fiscal policy at $t + 1$ (Table III), but there is, and in the hypothesized direction, between election outcome and F'' , the variable that measures accelerations and decelerations in spending (Table V)?

Arithmetically, there are three ways an acceleration can happen. Taking the most obvious (but less frequent) first: Suppose F rises (i.e., F' is greater than 2 percent) during two consecutive presidential terms. If the increase is larger in the second term than in the first, spending growth

has accelerated. This would be indicated by F'' taking on a positive value. This type of acceleration, where F' goes up twice in a row, with the latter increase larger than the first, is rare. Between 1884 and 1992 there were only two instances. Both times, it happened during terms when the U.S. fought in a world war (1916-1920 and 1940-1944), and both times after the incumbent president had been reelected (Woodrow Wilson in 1916 and FDR in 1940). Accelerated growth in spending is a rare phenomenon, occurring only under the administration of a president whom the voters had previously returned to the White House and in the midst of a national emergency.

A more typical acceleration occurs when spending during the current presidential term rises after having dropped or remained unchanged during the previous term. In this case, the current administration renewed the growth of expenditures after a pause or reduction in federal spending in the preceding one. This has happened nine times; in two-thirds of the cases, it occurred after the party in the White House had emerged victorious in the previous election (1932, 1952, 1960, 1968, 1976, and 1992). In only three instances (1888, 1916, and 1984) has an acceleration followed a change in party control of the White House. In other words, it was usually after the party controlling the presidency had seen its candidate elected (or reelected) that spending accelerated. This pattern is consistent with the hypothesis that after a reelection the incumbents are encouraged to test new fiscal limits.

The last type of acceleration happens when a reduction in F during one presidential term is followed by continued reduction in the succeeding term, but at a slower rate. This yields a positive value for F'' . This sort of "acceleration" shows a change in fiscal policy that is more subtle than the expansion/cut-back dichotomy is able to capture: a cut in spending that is smaller than that produced in the previous term. Interestingly, this has happened only three times between 1880 and 1992, but in every case after the Republicans had controlled the presidency for two or more consecutive terms (1884, 1908, and 1928). This may suggest that after several terms in the White House the incumbents' enthusiasm for spending cuts begins to wane, something that is consistent with the hypothesis.

In any case, the discrepancy in the results between Tables III and V can now be accounted for. Whereas Table III shows that in the case of the 16 incumbents returned to office, half adopted an expansionary and the other half a cut-back fiscal policy, Table V shows that 11 accelerated while 5 decelerated spending, the difference being accounted for by the three accelerations discussed in the previous paragraph. Note that there is no difference between the two tables in the case of the 12 new administrations: Table III shows that 7 adopted a cut-back policy whereas

Table V shows that an equal number opted for fiscal deceleration.

Federal spending does not follow election results in a consistent manner. Fiscal policy is as likely to be expansionary as cut-back, regardless of the results of the previous presidential election. However, when fiscal policy is disaggregated into its component variables, F' and F'' , differences between new administrations and reelected incumbents do emerge. In the case of F' , after a reelection incumbents show fiscal decisiveness, increasing and decreasing spending in equal proportions. Fiscal timidity, i.e., leaving spending unchanged, is found only in the case of new administrations. For its part, F'' behaves as expected in response to election results, with accelerations more likely to occur after the re-election of the incumbents and decelerations after their defeat. In the case of accelerations, though, the tendency is tenuous: there is a very subtle change in fiscal policy, involving smaller cuts, after several consecutive Republican presidents.

V. Conclusion

This paper has presented additional evidence that fiscal expansion is associated with defeat, and fiscal cut-back with the reelection of the incumbent candidate or party in U.S. presidential elections. Given this apparent fiscal bias on the part of the electorate, it is puzzling to find but very weak support for the hypothesis that presidents adjust fiscal policy in response to election results. The answer may lie in the shortness of the presidential term or in the coarseness of our fiscal measures.

Be that as it may, our findings, although not conclusive, suggest that fiscal policy affects presidential reelection or defeat independently of economic conditions. Unlike economic models, this one accounts for election outcomes prior to 1916 and, interestingly, that of 1992, a year when economic models would have predicted a Bush victory.¹² Theoretically, this makes a certain amount of sense. Far more than inflation or economic growth, fiscal policy lies within the discretion of the White House. Although there is no question that inflation and economic growth are more salient, the evidence presented in this paper argues for the inclusion of fiscal policy in economic models of elections.

12. See Greene, "Forewarned before Forecast," and Fair, "The Effect of Economic Events, 1992 Update."

APPENDIX

Fiscal Variables and Presidential Election Results: 1880-1992

YEAR	F	F'	F''	FISCAL	GROWTH	PRICES	VOTE	ELECTION	OUTCOME
1876	3.4								
1880	2.5	-26		-1	3.879	1.974	48	1	*
1884	2.3	-8	18	-1	1.589	1.055	48	-1	
1888	2.5	9	17	1	-5.553	0.604	49	-1	*
1892	2.7	8	-1	1	2.763	2.274	43	-1	*
1896	2.9	7	-1	1	-10.024	3.410	47	-1	*
1900	2.9	0	-7	-1	-1.425	2.548	52	1	*
1904	2.7	-7	-7	-1	-2.421	1.442	56	1	*
1908	2.6	-4	3	-1	-6.281	1.879	52	1	*
1912	2.0	-23	-19	-1	4.164	2.172	25	-1	
1916	2.8	40	63	1	2.229	4.252	49	1	
1920	6.7	139	99	1	-11.463	16.535	34	-1	*
1924	3.5	-48	-187	-1	-3.872	5.161	54	1	*
1928	3.0	-11	37	-1	4.623	0.183	58	1	*
1932	9.2	197	208	1	-15.574	6.657	40	-1	*
1936	11.0	20	-177	-1	12.625	3.387	61	1	*
1940	11.6	5	-15	-1	2.420	0.553	55	1	*
1944	44.3	281	276	1	2.910	6.432	53	1	
1948	14.9	-66	-347	-1	3.105	10.369	50	1	*
1952	20.7	39	105	1	0.910	2.256	44	-1	*
1956	17.1	-17	-56	-1	-1.479	2.132	57	1	*
1960	18.4	8	25	1	0.020	2.299	50	-1	*
1964	18.6	1	-7	-1	4.950	1.201	61	1	*
1968	20.8	12	11	1	4.712	3.160	43	-1	*
1972	20.9	0	-12	-1	5.716	4.762	61	1	*
1976	22.6	8	8	1	3.411	7.604	48	-1	*
1980	21.6	-4	-12	-1	-3.512	7.947	41	-1	
1984	22.6	5	9	1	5.722	5.296	59	1	
1988	21.7	-3	-8	-1	2.174	3.392	53	1	*
1992	23.2	7	10	1	1.478	3.834	38	-1	*

(1 = expansionary fiscal policy; -1 = cut-back fiscal policy)

(1 = reelection; -1 = defeat)

(*indicates outcome predicted by fiscal model)

Sources: calculated from the following sources. *Historical Statistics of the United States. Colonial Times to 1970* (Washington, DC: 1975); M. Slade Kendrick, *A Century and a Half of Federal Expenditures* (New York: National Bureau of Economic Research, Inc., 1955); Joint Economic Committee, *Economic Indicators* (various years through 1993); U.S. Department of Commerce publications: *Statistical Abstract of the United States* (Washington, DC: various years through 1993); *The National Income and Product Accounts of the United States, 1929-1982* (Washington, DC: 1986); Alfred G. Cuzán and Richard J. Heggen, "A Fiscal Model of Presidential Elections in the United States: 1880-1980," *Presidential Studies Quarterly*, 22 (1992): 134; and Ray C. Fair, "The Effect of Economic Events on Votes for President: 1992 Update," *Cowles Foundation Discussion Paper No. 1084* (New Haven, CT: Cowles Foundation for Research in Economics at Yale University, October 1994).