

# FRBSF WEEKLY LETTER

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## Presidential Popularity, Presidential Policies

Political scientists and economists have not been surprised to see that presidential popularity polls have swung dramatically over the last twelve months. The Gulf War pushed President Bush's approval rating to unprecedented heights, while the recent decline in his popularity is attributed by many to concern over the current recession. The case of President Bush, like that of other presidents, illustrates the general principle that foreign affairs and the economy are two major factors affecting the popularity of presidents.

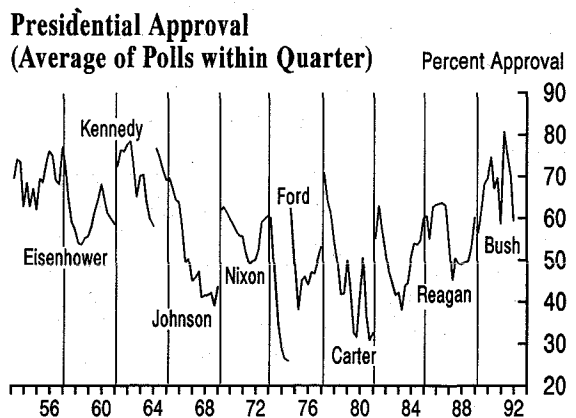
Based on this principle, two models of incumbent behavior have emerged. One is that politicians are opportunistic, caring only about staying in office. Therefore, they are likely to try to increase their popularity by engineering an economic expansion just before an election. The other model is that politicians are motivated by ideology: they have a political agenda they hope to implement while in office. Therefore, an unexpected increase in popularity, perhaps due to a foreign policy success, may present an administration with the opportunity to pursue ideological goals which would otherwise have lower priority if reelection were in doubt.

In recent research, we use the president's approval level as measured by the Gallup Poll to see whether changes in popularity are reflected in subsequent policy actions, that is, whether either model tends to describe incumbent behavior, and, if so, which one tends to dominate. The results suggest that high approval ratings, such as President Bush enjoyed after the Gulf War, fail to translate into changes in economic policy that reflect ideological goals.

### The Gallup Poll

The most widely used measure of presidential popularity is obtained from surveys conducted by the Gallup organization. A simple measure of presidential popularity is the fraction of survey respondents expressing approval of the president's handling of his job. It turns out that this measure is highly correlated with approval of a president's

economic policies. The chart shows average presidential approval on a quarterly basis since 1953.



The approval ratings for Presidents Kennedy, Johnson, Nixon, and Carter show a clear tendency to decline as their administrations progressed, with the drop-off most marked in the case of Nixon during Watergate. A number of studies have shown that Gallup approval ratings are affected negatively by both contemporaneous unemployment and inflation (see, for example, Golden and Poterba 1980). This evidence forms the basis for arguments that presidents will attempt to manipulate the economy in order to raise their chances of reelection. The ideal situation for an incumbent president is to have an economic expansion that is strong enough to lower unemployment prior to an election but that has not yet pushed up the inflation rate.

### Policies and popularity

The policies of both opportunistic and ideological politicians will be affected by perceived changes in their probability of reelection. If the probability of reelection rises, then the opportunistic politician has less need to manipulate fiscal policy, while the ideologically motivated politician will have more room to push his desired policies or policies favoring his constituents.

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To distinguish between opportunistic and ideologically motivated behavior in the determination of aggregate economic policy, it helps to look at fiscal policies that typically divide Democrats and Republicans. A good example is transfer spending, such as Aid to Families with Dependent Children, Food Stamps, or Social Security payments.

In the opportunistic model, where the incumbent simply wants to stay in office, an increase in popularity would induce the same behavior from both a Republican and a Democrat incumbent. Each would reduce transfer spending, because each would have less need to "bribe" voters with transfer payments to ensure reelection.

In the ideological model, an increase in popularity is likely to induce opposing effects on transfer spending from a Republican and a Democratic incumbent. The Republican incumbent would have more leeway to pursue party goals designed to reduce transfer payments, while the Democratic incumbent would have more leeway to increase transfer payments.

Defense spending is also an area over which Democrats and Republicans might be expected to have ideological differences, so the response of defense spending to changes in presidential popularity may help to distinguish between the two theories. Such ideological influences may be offset by other factors, however; for example, defense spending rose under Kennedy and Johnson (both Democrats) and fell under Nixon (a Republican).

## Previous evidence

The existing empirical literature has found little systematic relationship between presidential popularity and aggregate economic policy. For example, Golden and Poterba (1980) estimate the impact of presidential popularity on the real federal surplus, full employment federal taxes, full employment spending, total transfer spending (all relative to full employment GNP), and money growth relative to expected inflation. In no case do they find a significant effect of popularity on any of these instruments.

This earlier work employed sample periods beginning with the Eisenhower administration and ending in the mid-1970s. While these samples included the Nixon years, the most commonly cited example of an opportunistic administration,

they end prior to the Reagan years, excluding evidence from a president generally considered to be motivated by ideology.

## New evidence

In Walsh and Newman (1991), we reexamine the impact of popularity on policies using data from the Eisenhower to the Reagan administrations. Like Golden and Poterba, we investigated the presence of presidential popularity on federal transfer payments. In addition, we looked for effects on the composition of federal spending between defense and nondefense categories.

Unlike earlier work, we consistently found that, as a whole, increased presidential popularity led to reductions in federal transfer payments (measured relative to GNP). The estimated effects of Democratic and Republican presidential popularity were quite similar and suggest that a rise in popularity leads to a reduction in transfer payments by both Democratic and Republican administrations. Democratic and Republican presidents should respond differently to changes in their popularity if ideological considerations are important, so this result seems more consistent with the model of opportunistic politicians than with the ideological model. A fall in popularity, by reducing the probability of reelection, induces the administration to increase transfer payments to raise its vote share.

We also examined the data at the level of each administration, and found that a rise in presidential popularity produces statistically significant declines in transfer spending during the Kennedy-Johnson, Nixon-Ford, and Carter administrations. These findings are consistent with the opportunistic model, but the results for Kennedy-Johnson and Carter seem particularly at odds with the ideological model of behavior. No significant effects of popularity on transfer spending were found for either the Eisenhower or the Reagan administrations, so the evidence for the opportunistic view is mixed.

Ideological differences between Democratic and Republican presidents exist over the desired composition of federal government expenditures. The ideological theory suggests that increased popularity will allow Democratic presidents to pursue policies that expand nondefense federal spending relative to defense spending while Republicans will respond in the opposite fashion. The empirical evidence, however, provides no support for

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the ideological view; changes in popularity do not seem to translate into systematic changes in the composition of federal spending. And the effects of popularity on total federal spending are inconsistent with the opportunistic theory; a fall in popularity is associated with subsequent increases in spending (mainly nondefense) during the Kennedy-Johnson administrations as predicted by the opportunistic model, but by decreased spending during the Reagan administration.

If increased popularity allows presidents to pursue ideological goals, the empirical record finds very little evidence that such behavior affects measures of aggregate fiscal spending. The relationships that do exist between popularity and policy also are not consistent with the opportunistic model of political behavior.

#### **Are voters forward-looking?**

Just as there are two views on the behavior of politicians, there are two views on the way voters evaluate presidents. One view is that voters are "backward-looking," that is, they base their view of the president on the levels of unemployment and inflation in the recent past. In this case, a rise in unemployment or inflation will lead to a subsequent decline in presidential popularity. One implication of this view of voters is that changes in unemployment should help to forecast future changes in presidential popularity.

The alternative view is that voters are "forward-looking," that is, they will make choices based on their expectations of future policies and will not cast their votes simply to reward past policy actions. In this case, the president's current popularity should fall if the public expects a rise in unemployment or inflation. With forward-looking voters, Gallup popularity should help forecast future unemployment.

Over the seven administrations from Eisenhower to Reagan, we find that the president's Gallup

approval level does help to forecast future movements in the unemployment rate. The converse does not hold; unemployment does not help to forecast future movements in presidential popularity. This suggests that voters are forward-looking when rating presidents.

#### **Conclusions**

Traditional business cycle analysis tended to view the determination of economic policy as lying outside the expertise of economists and in the domain of political scientists. Economists investigated how the economy would respond if the government adopted a particular policy or the optimal policy the government should pursue, but the determinants of the policy actually adopted were not addressed. This perspective has changed in recent years; economists increasingly use the tools of economic analysis to study governmental policy choice.

Any such analysis requires an understanding of the motives of policymakers in setting aggregate economic policy. Neither of the two leading candidates, the opportunistic or the ideological models, gains much support from the evidence on presidential popularity and subsequent policy changes.

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