

# How Does Economic Performance Affect the U.S. Presidential Elections?

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## Abstract

This study examines the impact of macroeconomic performance on U.S. presidential election outcomes since the end of World War II. The research is grounded in the theory that voters are influenced by short-term economic indicators rather than long-term trends when casting their ballots. Using GDP growth rate, inflation, unemployment, and stock market performance from 1948 to 2020, we evaluate how these variables affect the likelihood of the ruling party's re-election. Our findings suggest that U.S. voters tend to prioritize short-term economic conditions, such as inflation control and labor market improvements, over long-term economic achievements. This behavior is consistent across both major political parties, although the threshold for economic performance varies between Democrats and Republicans. Our findings provide insights for policymakers and political strategists aiming to secure electoral success.

## Keywords

Economic Performance, U.S., Presidential Elections

## 1. Introduction

Economic issues always serve as one of the most critical agendas in elections for democracies over the world (Hanson, 2016). For incumbent ruling parties, the priority is always to maintain the economic performance that can be recognized by the majority of voters in the forthcoming election cycle. The challengers, on the other hand, frequently highlight economic issues to attract voters.

Recent studies have explored the influence of candidate identity and voter mobilization strategies on electoral results. For instance, Pomante (2017) illustrated how U.S. presidential candidates effectively mobilize youth through targeted strategies. Earlier, Hanson (2016) analyzed trends in U.S. voting attitudes, taking

racess/ethnicities and genders into consideration, and demonstrating insight into factors that may influence voters' behaviors.

Our study provides empirical results regarding theories that link the economy with politics. As government agendas determine the interconnections between policies and economic activities, political ideology theory suggests that the parties holding various political ideologies may employ different approaches and strategies to deal with issues while in power (Bjørnskov & Potrafke, 2011, 2012; Pearce, 2006), directly linking to the government's spending and revenue. Garmann (2014), Chang and Berdiev (2011), Neumayer (2003, 2004), and Potrafke (2010) suggest that leftist governments are more likely to implement stringent policies targeting corporations and protecting the environment while their counterparts tend to be less regulated.

The electoral view theory by Quinn and Shapiro (1991) states that parties develop electorally motivated policies that may differ from their political ideologies. Their argument is consistent with Botta and Koźłuki (2014), Neumayer (2008), Pilkington (2019), and Wen et al. (2016). Rightists, due to their preference for law and order, are more likely to formulate strict policies and punishments than leftists, even though the latter may enact more policies than the former. Tawiah (2022) documents significant and counterintuitive relationships between political ideologies and environmental policy stringency using international data, highlighting the importance of the preference for law and order and the party's position on social freedom in policy formation.

The ideological differences in economic policies between the Democrats and Republicans are significant, with Democrats generally favoring more government intervention, higher taxes, and spending on social welfare programs, while Republicans tend to advocate for lower taxes, reduced government spending, and a focus on economic growth through deregulation (Potrafke, 2018; Falk & Shelton, 2017). Potrafke (2018) further documented that Democratic governors tend to implement more expansionary and liberal policies compared to their Republican counterparts, which means that Democratic majorities in state houses led to higher tax revenues and increased spending on education and public safety. This could be a way of showing the difference between Democrats and Republicans on the problem of public wealth, which includes the unemployment rate that occupies an important role for the voters to consider during a presidential election. This Idea will be further proved in the later finding from the trend of the changing of unemployment rate. Voters with different backgrounds, religions, races, and ideologies all have an impact on the result of election, because people tend to favor the party that has a closer way of thinking than voters themselves.

The ideological differences between Democrats and Republicans not only affect the U.S. but also influence the global economy. Democratic policies that focus on government spending and social programs may encourage similar policies in other countries. In contrast, Republican policies that prioritize less government regulation and lower taxes can promote free-market policies internationally (Potrafke,

2018). These ideological differences can impact global trade, economic relationships, and financial markets.

The differences in policies between Democratic and Republican governments are rooted in several key factors that influence how each party approaches governance. Potrafke (2017) suggests that these differences can be attributed to the ideological foundations, economic expectations, and political stability considerations of each party. Falk and Shelton (2017) find that economic agents anticipate changes in policies when a new party takes office. This anticipation reflects the ideological differences between the two parties, with Democrats typically favoring more government intervention and social spending, and Republicans advocating for lower taxes and less regulation. The differing expectations of these policies can lead to shifts in economic behavior depending on which party is in power.

The difference in policies also can be caused by the preferences of their constituents. Potrafke (2017) suggests that the likelihood of disenchantment with the political system decreases when policies reflect the values of their base. This alignment fosters stability within political institutions, as constituents feel their voices are being heard and represented. Similarly, Bergh and Bjørnskov (2017) suggest the responsiveness of political parties to their constituents' preferences plays a crucial role in maintaining the legitimacy of representative democracy.

Our study addresses the following important questions. As the anticipation of economic agents to policy changes, the alignment of policies with constituent preferences, and the impact on political stability can lead to the differences in policies between the two major parties, how does the macroeconomic performance affect the presidential election outcomes? Do voters hold different expectations between the two parties? Understanding these issues will help governments of different ruling parties to formulate economic policies.

## 2. Economic Performance and Presidential Elections

In this paper, we analyze to what extent macroeconomic performance affects the outcome of the presidential elections in the United States. Our study includes the four important indicators that feature economic performance. First, the growth rate of Gross Domestic Product (GDP) per capita is used to measure the speed of economic development and reflects how the economy's expansion benefits the average citizen. Second, the increase in the overall pricing level, an inflation rate measured by the change in consumer price index (CPI), represents the loss of purchasing power of the public.

Labor market performance is the third measure, measured by the unemployment rate, and can also serve as another determination. The unemployment rate can influence consumer spending, monetary policy, and social stability. High unemployment can lead to potential social unrest and impact the well-being of citizens, making it a crucial measure of both economic and societal conditions. Other than the physical economy, we are also curious about how do financial market performance and risk, represented by the equity market, affect the presidential

elections. Financial market performance, especially stock market returns, plays a vital role in forming voter preferences. High market returns are often regarded as a symbol of economic stability, which could be beneficial for the incumbent party, on the contrary, market volatility or poor performance may cause a change in elections (Pomante, 2017). The stock market is a reliable indicator of investor confidence, and its performance during election years can be essential in determining electoral outcomes. We consider both returns and the standard deviation of the S&P 500 Index. In the U.S., as 58% of households invest in stocks in 2023, the performance and risk can affect the election outcome.

Our study evaluates the length that voters care most for each one of the variables. Voters can decide their votes according to long-term or short-term performance as different variables may have different impacts and implications on the lives of citizens. To understand the horizon that voters consider most in their decision-making, other than reporting the averages of one year and three years before the election, we also evaluate the change of the variables one year before the presidential elections.

Our sample period ranges from 1948 to 2020, starting from the first presidential election after World War II. The quarterly and monthly economic variables described above are obtained from the Federal Reserve Bank St. Louis website. Weekly data of the S&P 500 Index are generated from Yahoo! Finance to proxy the stock market performance and risk.

I differentiate the circumstances primarily into two: 1) the ruling party remains unchanged and 2) changes in an election. We summarize the data of GDP per capita growth rate, CPI inflation rate, unemployment rate, and stock market return in different scenarios. With this information, we can better understand the conditions under which the ruling party stays in power or is replaced, as well as the types of information that voters pay attention to. "1-year" refers to the average one year before the upcoming election. "Change" refers to the overall change in the trend from the October one year before to the October before the election day. This helps us understand whether voters care about these changes, which can be interpreted as the improvements made by the ruling party. "3-years" indicates the three-year average of the specific data and can be viewed as the long-term performance during the presidency.

These three measures highlight the different factors that voters pay attention to. Separating the 1-year average, the change in the trend over one year, and the 3-year average allows us to easily identify the main reasons why the ruling party can retain power or what improvements they need to make to win over voters. The 1-year average change helps us understand whether voters have a short-term memory of the changes, indicating whether they care about the short term. The 3-year average is the opposite, reflecting the long-term memory of voters and helping us determine if they care about long-term averages. Lastly, the "Change" indicator is unique among the three, as it helps us assess improvements in GDP, inflation, etc., and shows whether voters care about the improvements made by

the parties and under which ruling party the GDP, inflation, etc., are performing better.

For the GDP per capita growth rate, voters care most about the growth in the year before the election. **Table 1(a)** shows if the GDP growth rate for the 1-year period before the election is low, such as 1.03%, the ruling party is likely to lose power to the other party. In contrast, if the GDP growth rate is high, like 2.76%, the ruling party is more likely to retain power. The overall economic growth or decline during the current presidency does not significantly influence voters' decisions, as seen in the "Changed" section. Even when the overall trend of GDP growth was negative, the ruling party still managed to hold on to power in the White House.

**Table 1.** Summary of economic performance: Change vs. Unchanged. (a) GDP per capita growth rate (%); (b) CPI Inflation rate (%); (c) Unemployment rate (%); (d) Stock Market Return (%).

(a)			
	1-year	Change	3-year
Changed	1.03	0.04	2.10
Unchanged	2.76	-0.13	2.04
(b)			
	1-year	Change	3-year
Changed	4.11	-0.45	3.93
Unchanged	2.73	0.37	2.75
(c)			
	1-year	Change	3-year
Changed	5.72	0.52	5.35
Unchanged	5.90	-0.54	6.39
(d)			
	1-year	3-year	3-year St. Dev.
Changed	7.86%	10.78%	15.54%
Unchanged	15.11%	14.29%	14.05%

The ruling party that achieved high long-term economic growth did not see much benefit in their election outcomes. This suggests that voters have short-term memories when it comes to economic achievements. Therefore, the overall change and the four-year average do not seem to matter much to voters, who are more focused on the short-term changes, particularly the one-year change in the GDP growth rate.

**Table 1(b)** shows that the voters tend to care most about short-term inflation during the current presidency. As we can see from the data, when the 1-year average of inflation is high like 4.11% the ruling party will lose the election and

change to the other party. On the other hand, when the Inflation rate is low, 2.73% is controlled in a reasonable range. The ruling party will be able to get reelected and hold on to their power in the White House.

Similar to GDP growth rate change trend for the one year before the election, the CPI inflation rate change also tends to not affect the election results significantly. The voters do not care much about the change for the trend easily if they are not exposed to it. This led to the result that even when the Inflation rate decreased, the ruling party still was not able to hold on to the seat in the White House, but when the inflation rate changed in the one-year trend the ruling party still have a higher chance of getting reelected. This suggests people are more likely to have an opinion on how inflation is changing over the four years. For the change, it does not matter because people care most about short-term increases and decreases, which shows that if the ruling party wants to be in position for reelection, short-term inflation is one of the key factors that they must care about.

As shown in **Table 1(c)**, voters care most about improvements in the labor market. As we can see from the data, when the unemployment rate shows an increasing trend in the year before the election, with a positive change, the ruling party tends to be voted out, leading to a change in power. Conversely, when the change is negative, indicating an improvement in the labor market, voters are more likely to support the incumbent party.

The short-term and long-term averages do not seem to matter as much to voters. When the party changes, the short-term and long-term averages indeed show a lower unemployment rate compared to when the ruling party remains unchanged. This suggests that while voters are aware of the short-term and long-term averages, they are primarily interested in the improvements made by the ruling party in the labor market.

**Table 1(d)** presents the results of the stock market return. There is a significant difference between the “Changed” and “Unchanged” sections in the 1-year average. When the 1-year average market return rate is low before the election, the ruling party tends to lose power, as seen with the 7.86% return rate. Conversely, when the market return rate is high, the ruling party is more likely to be re-elected and retain power.

Beyond the 1-year average return, the 3-year average return rate also indicates that when the rate is low, the ruling party is less likely to win the election. However, when the rate is high, the ruling party is more likely to be re-elected. Although the difference between the “Changed” and “Unchanged” sections is not as pronounced as in the 1-year average return, it still supports this finding.

The 3-year standard deviation represents the volatility during the presidency. A high percentage in this metric indicates more dramatic fluctuations in stock values, which is something voters do not favor. This leads to the ruling party losing the election and failing to be re-elected. Therefore, the ruling party’s ultimate goal should be to maintain steady stock market growth, as it is not something that can be as directly controlled by the government as inflation, for example.

### 3. Do the Results Differ from the Parties?

The next question is whether the main results hold for both parties and how the values vary across the two parties. Since voters may hold various expectations of the two parties, they may tolerate one party more than the other in a certain aspect of economic performance. As Democrats are generally considered liberal, while Republicans are seen as conservative, the differences may attract different types of voters in various areas. We classify the situations into “from Republican to Democrat” and “from Democrat to Republican”, in addition to “unchanged” for both Democrat to Republican.

**Table 2** presents the change in the year before the election, and the 3-year average between the parties. In **Table 2(a)**, when the 1-year average GDP growth rate does not meet voter expectations, regardless of whether Republicans or Democrats are in power, voters will not re-elect the party. This is consistent with the main findings. For example, when the ruling party was Republican and failed to get re-elected, the average growth rate was 0.32%. On the other hand, when Democrats were in power and failed to get re-elected, the GDP growth rate was 1.75%, significantly higher than 0.32%, yet they still failed to secure re-election. This suggests that voters may have stricter expectations for Democrats when it comes to GDP growth.

**Table 2.** Summary of economic performance between the parties: Changed vs. Unchanged. (a) GDP per capita growth rate (%); (b) CPI Inflation rate (%); (c) Unemployment rate (%); (d) Stock Market Return (%).

(a)			
Changed			
	1-year	Change	3-year
R to D	0.32	-2.90	1.32
D to R	1.75	2.98	2.87
Unchanged			
	1-year	Change	3-year
D	2.44	-1.29	2.15
R	2.95	0.57	1.97
(b)			
Changed			
	1-year	Change	3-year
R to D	3.24	-0.65	4.07
D to R	4.99	-0.24	3.80
Unchanged			
	1-year	Change	3-year
D	2.11	-0.32	1.92
R	3.10	0.79	3.25

## Continued

(c)			
Changed			
	1-year	Change	3-year
R to D	6.90	1.00	5.73
D to R	4.54	0.04	4.97
Unchanged			
	1-year	Change	3-year
D	6.25	-0.60	6.92
R	5.69	-0.50	6.05
(d)			
Changed			
	1-year	3-year	St. Dev
R to D	1.73	6.98	17.10
D to R	13.99	14.58	13.97
Unchanged			
	1-year	3-year	St. Dev
D	16.74	12.88	13.15
R	14.13	15.13	14.60

In addition to the 1-year average, looking at the change in GDP growth in the year before the election, we see that both positive and negative changes occurred for both parties, regardless of whether the party in power changed or remained the same. This indicates that voters do not prioritize the trend in GDP growth, and it does not influence their voting decisions.

Similarly, when examining the 3-year average, in the “Changed” section, the rate is 1.32% for Republicans and 2.87% for Democrats. This suggests that voters have lower expectations or give more leeway to Republicans when it comes to the 3-year average GDP growth rate. However, in the “Unchanged” section, where both parties were re-elected, the rates were much lower than 2.87%. From this information, we can conclude that voters do not have long-term memories regarding GDP growth rates and primarily focus on the short-term average. This aligns with the conclusion we reached in **Table 1**.

When it comes to the CPI inflation rate, in **Table 2(b)**, under the “Changed” section, the rate of change from Republican to Democrat is 3.24%, and from Democrat to Republican is 4.99%. These rates are relatively higher compared to the “Unchanged” section, where the rates are 2.11% and 3.10%, respectively. Similarly, **Table 1** suggests that if the ruling party wants to be re-elected, they need to control the 1-year average of the inflation rate, as voters do not have long-term memory regarding this factor. From this, we can conclude that if the ruling party wants to be re-elected, they must control the 1-year inflation average.

In this case, the one-year change in the trend of the inflation rate does not significantly influence voters' opinions on which party to vote for. In the "Changed" section, we can see improvements made by both Republicans and Democrats, yet neither party was able to get re-elected and retain power. This indicates that merely making improvements is not the key factor voters consider; instead, having an overall lower average inflation rate is more important. In the "Unchanged" section, where there was a one-year change in the trend, we observe that even with an increasing inflation rate under a Republican administration, the party could still be re-elected. This further supports the idea that the average inflation rate is more significant.

In the "Changed" section, the 3-year average is 4.07% for Republicans and 3.80% for Democrats, which is higher compared to the "Unchanged" section, where the percentages are 1.92% for Democrats and 3.25% for Republicans. This suggests that voters are concerned with both the short-term and long-term inflation rates. However, voters seem to have lower expectations for Republicans when it comes to addressing inflation, as the rate was much higher when they were re-elected. Overall, voters care about both short-term and long-term rates of inflation, as these factors allow them to assess the determination of the two parties in addressing inflation problems.

For **Table 2(c)** the unemployment rate, in the 1-year average section for "Changed" and "Unchanged," the rates are nearly the same, and it's even lower for Democrats when they failed to get re-elected, and the ruling party changed. From this, we can conclude that the 1-year average unemployment rate does not matter much to voters.

For the change in the trend one year before the election, we see that when the ruling party failed to get re-elected, the unemployment rate was gradually increasing. However, when the ruling party was re-elected, the unemployment rate was decreasing. This suggests that if the ruling party wants to be re-elected for the next term, voters need to see an improvement in the labor market, regardless of whether it's a Republican or Democrat administration. However, there appears to be more leeway for Republicans, as even when the rate was 0.04%, which is nearly zero, the Democrats still failed to get re-elected.

The 3-year average performs in the same way as the 1-year average; we can clearly see that the unemployment rate is lower whether the ruling party is Republican or Democrat, yet both failed to get re-elected. On the other hand, they both got re-elected when the average rate was higher.

From all the information provided by this unemployment data, we can conclude that the average unemployment rate for both the 1-year and 3-year periods does not matter much to voters, indicating that they do not have short-term or long-term memory concerning this issue. Voters primarily want to see improvements made by the ruling party.

**Table 2(d)** shows that the 1-year average stock market return is relatively lower compared to when the situation that the ruling party did not change, which means

the public cares about which party can better encourage investment for them. This would mean a lot for the candidates, and the parties need to consider stockholders as one of their target potential voters.

Similar to the 3-year average return for the stock market, but in the “Changed” section, the return rate for Republicans is much lower compared to Democrats, but still, the Democrat party failed to get reelected. This proves that there is less leeway for the Democrat party, but overall, when the ruling party does not change, stock market performance tends to do better under the Republican.

#### 4. Conclusion

Our analysis suggests that voters tend to focus on short-term for most economic indicators rather than long-term trends when deciding on election outcomes. Specifically, changes in GDP growth, inflation, unemployment, and stock market returns in the year leading up to an election influence voter behavior. Voters are sensitive to short-term inflation and labor market improvements, favoring the ruling party if these metrics show positive changes. While stock market performance plays a role, its volatility can negatively impact the ruling party’s chances of re-election, highlighting the importance of maintaining economic stability.

The findings from this study align with Pomante’s (2017) conclusion that young candidates, who directly engage through modern platforms, tend to benefit from higher youth turnout. Additionally, Hanson’s (2016) analysis of voting attitudes by demographic groups offers context for interpreting the electorate’s behavior based on race/ethnicity and gender, which is particularly relevant in diverse democratic settings like the United States.

The findings from the analysis of the two parties support the main finding, although the threshold for the Republicans to be reflected is lower than the Democrats in most of the variables. This can be the different expectations of voters to different parties and consistent with the theory suggested by Potrafke (2017). Our findings contribute to the understanding of electoral dynamics by highlighting the importance of economic stability and its influence on voter decisions, offering insights for policymakers and political strategists aiming to secure electoral success.

#### Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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