The Canberra Times Tue 05 Nov 2002

Oil prices may make US voters swing

Andrew Leigh and **Justin Wolfers** report on the likelihood of state governorships changing hands in today's elections.

THE UNITED States of America goes to the polls today, and while most attention has focused on the mid-term congressional elections, another important set of polls are also taking place: 36 of the country's 50 states are due to choose their governors, and speculation has mounted that some major changes are on the horizon.

According to the political insider magazine *Congressional Quarterly*, up to one-third of governorships held by a major party could change hands. This is not an ideal time to be running a state.

Why are so many incumbent governors on the ropes? Most analysts have focused on two main factors. First, the Republicans hold more governorships, so the traditional mid-term backlash is likely to hit them hard. Secondly, the current economic downturn looks bad for those governors elected four years ago, at the height of the long boom.

The belief that economic factors are crucial in elections has been proven in hundreds of elections throughout the world. This is also true in Australia, as research by ourselves and other academics has shown. However, the view that the current US downturn may lead to unemployment even among incumbent governors does not sit well with current intellectual fashions within political science, and particularly with the so-called rational-choice school, which argues that voters are a pretty smart bunch. Put simply, it cannot be rational for voters to boot out governors for a crime they did not commit.

When a country's national economy is booming, it may make sense for voters to re-elect their prime minister or president. Voters tend to reward good economic performance when casting their votes, and punish poor performance, but at a state level, voters should make a more subtle judgment. The question ought to be not "How well is my state doing?", but "How well is my state doing, relative to the nation as a whole?" Just as the long boom in America owed more to the Federal Reserve's chairman, Alan Greenspan, and President Bill Clinton than any particular state House, the end of the boom surely reflects national rather than local factors.

If voters do not separate the effect of the national economy from their state economy, they risk kicking out a few good governors in this downturn.

How smart is the American electorate? In an attempt to shed light on the forthcoming gubernatorial elections, we looked at every state contest held since World War II. And the results are intriguing.

Voters appear pretty sharp, and there appears to be no tendency to punish incumbent state governors during a national downturn. So it seems that voters blame Washington, DC, not their state House, for national economic problems. This suggests that the current downturn is unlikely to spell the end for a disproportionately large share of current governors.

However, lest incumbents feel too relieved, our results also pointed to subtle ways in which voters blame them for swings in the economy that are not in their control. For instance, when oil prices rise, the oil-producing states boom, while oil-dependent manufacturing states dip towards recession. Voting tends to follow a similar pattern, with oil-price-led recessions causing incumbents to be ousted in the rust belt, while oil-price-led booms boost the chances of incumbents being re-elected in mining states.

As oil prices have soared with the threat of war in the Middle East, these old economic truths have reasserted themselves. Manufacturing states in the Midwest and South are suffering, while oil-rich states are barely feeling the current recession. While the last election produced blue and red maps that traced the coasts and the centre of the country respectively, the effect of oil prices on the ballot box may well lead to a map shaped around the nation's oil-producing and manufacturing centres.

Why do voters sometimes punish governors for factors outside their control? According to psychologists, the process is one known as "fundamental attribution error". In trying to explain a phenomenon, we often fail to take sufficient account of the broader environment in which it occurred. This helps explain why corporate boards are notoriously poor at ensuring that incentive pay for chief executive officers is linked to good management, rather than good luck. Naturally enough, voters make similar errors.

All of this may bring little cheer to the Democrats, who look as though they may lose the governorships of South Carolina and Alabama, nor to the Republicans, who could well see Illinois, Michigan and Tennessee slip from their grasp. But then, what goes around in a boom comes around in a bust.

Andrew Leigh is a PhD student at the John F. Kennedy School of Government, Harvard University. Dr Justin Wolfers is an Assistant Professor at Stanford Business School, and author of *Are Voters Rational? Evidence from Gubernatorial Elections* (Stanford GSB Research Paper 1730).