When the Fundamentals are Trumped: The 2008 Wall Street Meltdown Election and Election Forecasting

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ABSTRACT

An implicit assumption of many presidential election forecasting models is that the political fundamentals in place before the campaign are "played out" in the course of the campaign, that election results are largely unaffected by major unanticipated events during the campaign. In effect, the history of normal elections provides the basis for forecasting the next normal election. This has been generally a safe assumption. Though there have been numerous unexpected and major politically charged events in modern American political history, none had occurred during the period between when forecasts are made and Election Day–at least until 2008. In 2008, the assumption was violated. In mid-September of 2008, after the conventions and after most forecasts were made, the nation's financial system collapsed. The Wall Street Meltdown and its devastating economic consequences were unexpected by the parties, the public, the economic forecasters, and the election forecasters. Many election forecasts, however, were fairly accurate in predicting a solid popular vote margin for Democrat Barack Obama. The reason for this accuracy, in the face of the unexpected meltdown, was that many of the models made a compensating second error by specifying retrospective evaluations to have the same consequences in open seat races as they have when incumbents are running. Moving forward, it is important both to address the specification issue and to treat the 2008 election as a case in which the fundamental assumption of forecasting models was violated.

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When the Fundamentals are Trumped: The 2008 Wall Street Meltdown Election and Election Forecasting

This paper explores the basic premises of election forecasting–that the elections being forecast and the elections used in estimating the forecasting models are elections in which the pre-campaign fundamentals "play out" during a campaign in normal ways and lead to predictable results. The fundamentals include the vast array of pre-campaign conditions that voters find to be politically important to deciding how they will vote. These include the usual suspects of partisanship, incumbency, the past president's record (including the pre-campaign economic record), as well as anything else voters regard as salient. From a different perspective, the assumption for the forecasting models is that there are no *unexpected and major politically charged events that intervene between the time of the forecast and the time of the election* that derail the normal playing out of the fundamentals.

After discussing the importance of this critical assumption and the extent to which it has been met, I consider the possibility that this assumption was violated in the 2008 presidential election. The nation experienced an unexpected and major politically charged event in the financial crisis that became known as the Wall Street Meltdown in mid-September through early October of 2008. The crisis was certainly major. It sent the economy quickly into the deepest recession since the Great Depression of the 1930s. While the economy had been sluggish, the financial crisis and its associated deep recession was unanticipated by the electorate, by the election forecasters, and by economic forecasters. Finally, it had major political consequences. Before the crisis struck, Democratic candidate Barack Obama and Republican candidate John McCain were locked in a very close contest despite the sluggish economy and the dismal approval ratings of Republican President George W. Bush. The crisis pushed many independents and some Republicans into Obama's column and turned what had shaped up as a close election into one in which Barack Obama won with a comfortable majority of 53.7 percent of the two-party popular vote. The course of the election had been substantially changed by an unanticipated critical event that intervened between the forecasts and the election.

Because 2008 was not a normal election, in the sense that the course of the campaign was derailed by a critical event, it is not one that offers forecasters important information or lessons for future elections. One cannot introduce into a forecasting model a variable for unforeseen cataclysmic economic events that might occur after a forecast is made. The fundamentals in 2008, an open-seat contest with a very liberal Democrat running against a moderately conservative Republican carrying some of the baggage of a very unpopular Republican president, had been trumped by the Wall Street meltdown. The true impact of the fundamentals in 2008 could only be discerned by extracting them from the aftermath left by the Wall Street meltdown and that is very difficult, if not impossible, to do with a one-of-a-kind event of that sort.

Before delving into what should be done about the 2008 case and what might be anticipated as the reluctance of forecasters to do anything about it, I will first discuss the basic assumptions of forecast models as the context for discussing 2008.

Two Assumptions of Fundamentals-Based Forecasts

There are two important, but commonly unstated, assumptions of election forecasting models. The first is that they are estimated on typical elections that vary in typical ways. That is, the elections used to estimate the model vary in a number of relevant ways which can be taken into account, directly or indirectly, by the variables in the forecasting equations. The fundamentals that affect election results can be measured and taken into account as long as no major idiosyncratic events intervene during the campaign that divert the election's results from what would historically be expected.

The second assumption is that the election being forecast is also typical in that it is affected by the same set of factors or fundamentals that affected elections used in estimating the forecasting model. As in the case of the elections used to estimate the forecasting model, the assumption is that no major idiosyncratic development or cataclysmic development occurs during the campaign that would derail the "playing out" of the fundamentals. In short hand, the forecasting enterprise is based on examining basically normal elections in order to predict what happens in a basically normal election.

The reason for these assumptions is a more basic assumption that there are historical similarities among elections. Election forecasting models are essentially systematic ways of learning from history and applying that knowledge to a forthcoming election. We can learn about some systematic aspects of electoral history by quantitatively comparing measurable aspects elections across time and then applying our knowledge (coefficients) to the next election. The fundamentals that historically have affected election results include the orientation of public opinion prior to the campaign, the incumbency status of the candidates and parties, the state of the economy going into the campaign, and the drive of intense political competition (Campbell 2008). These fundamentals capture the inclinations of early deciding voters as well as the inclinations and likely influences on those who will be deciding during the campaign how they will vote. They reflect the standard array of political influences from party identification and political ideology to retrospective evaluations–both values and performance considerations.

Forecasting success depends on having a good idea of where voters stand before the campaign and a good idea from history of the factors are likely affect voter decisions during the campaign. This perspective is certainly not novel to the modern study of election forecasting and is consistent with the great body of voting behavior research (see, Campbell 1996 and 2008). The perspective also has been observed in conventional political wisdom or folklore. Long ago, James Farley, Franklin Roosevelt's chief political advisor in the 1930s, coined Farley's Law that elections were decided between elections and not during campaigns. Out of a more scholarly tradition, the eminent Paul Lazarsfeld made the same point when he wrote that "in an important sense, modern Presidential campaigns are over before they begin" (1944, 317). Lazarsfeld likened the modern campaign traditional photography. "The campaign," according to Lazarsfeld, "is like the chemical bath that develops a photograph. The chemical influence is necessary to bring out the picture, but only the picture pre-structured on the plate can come out" (1944, 330). The question is what happens to the picture if someone opens the darkroom door?

The understanding of normal campaigns has been useful because true "October Surprises" or unexpected and major politically charged events during campaigns have rarely taken place during campaigns. Most campaign events are minor or expected either in general or because of the pre-campaign context of the election. In general, normal American politics is characterized by uneventful stable competition between partisans accompanied by short-term changes in the political environment (a popular or unpopular president) with measurable consequences before campaigns get underway.

An unexpected and major politically charged event occurring is not merely a hypothetical possibility. While normal politics are fairly placid, there are also deviations. Important and unexpected events do happen. American political history is periodically punctuated by unanticipated crises of various sorts that have important political repercussions of different magnitudes and durations. The only saving grace for forecasters is that these events have not occurred during the campaigns in which elections have been forecast or in the elections most often used in estimating forecasting equations.

History is replete with events that would have rendered the forecast moot or, at least, contributed to an enormous error if the event had occurred in the window between a forecast and the election. It is not difficult to identify at least a half dozen unexpected events of great political gravity that would have tipped over the forecasting applecart if differently timed:

> In September of 1955, President Dwight Eisenhower, then 65 years old, suffered a serious heart attack that incapacitated him for several months. Suppose that this 65 year-old president had suffered his heart attack thirteen months later in the weeks before the 1956 presidential election. Would this have affected the 1956 election in ways that August approval polls, September preference polls, and any number of economic indicators could not possibly have anticipated?
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> In June of 1972, "the plumbers" were arrested in the Watergate Hotel while attempting to plant listening devices in the offices of the Democratic National Committee. The fabled Watergate investigation ensued. In July of 1973, eight months after his landslide re-election, upon the revelation that he had listening devices installed in the Oval Office, President Richard Nixon refused to turn over the tapes to the Senate Watergate Committee. His approval ratings dropped from the mid-40s into the mid-30s. Suppose that "the plumbers" got an earlier start or that the investigation unraveled the Watergate cover-up more quickly, say by October of 1972, would we expect the forecasts to run true to form?
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> On March 30, 1981, outside the Hilton Hotel in northwest Washington, D.C., a lunatic gun-man fired six shots from a distance of only fifteen feet at President Ronald Reagan. It was initially believed that the president had escaped unharmed, but it was then discovered that he had been seriously wounded. He recovered from the attempted assassination to win reelection three years and eight months later, but suppose that the attempted assassination had happened in

October of 1984 instead of March of 1981. Would this have affected the 1984 election in ways that August approval polls, September preference polls, and any number of economic indicators could not possibly have anticipated?

In August of 1990, Saddam Hussein ordered Iraqi troops into Kuwait. By mid-January 1991, after exhausting possible diplomatic options, President George H.W. Bush ordered a U.N.-authorized coalition of troops to initiate operation "Desert Storm" to liberate Kuwait from Iraqi occupation. Hussein declared that the "mother of all battles" was underway and President Bush declared that "we will not fail." President Bush's approval ratings jumped by about twenty percentage points into the 80 to 90 percent stratosphere. Suppose Iraq had invaded Kuwait a year or so later and that Desert Storm began in September of 1992 instead of January of 1991. Would election forecasts formulated before Desert Storm accurately have predicted how well President Bush would have done in the election?

In early August of 1998, it was revealed that DNA tests had provided physical evidence that President Bill Clinton had engaged in sexual activities with a White House intern and had lied about it under oath. Suppose that this revelation had occurred almost two years earlier in October 1996 during his campaign for reelection or a little over two years later in the midst of the campaign of Clinton's Vice President Al Gore? Is it credible to think that this would have left the impact of the pre-campaign fundamentals largely intact?

On the morning of September 11, 2001, a group of Al Qaeda terrorists commandeered four airliners and flew two of them into the World Trade Center towers in New York City and a third into the Pentagon in Arlington, Virginia. Thousands of innocent Americans perished and America went to war against radical Islamic terrorists. Suppose that the September 11 attack had happened in 2004, within weeks of the presidential election. Is there any doubt that they would have affected that election in ways that August approval polls, Labor Day preference polls, and any number of earlier economic indicators could not possibly have anticipated?

While each of these events may have had the gravity to overshadow the fundamentals in place before the campaign and to render the fundamentals-based forecasts anachronisms, none actually occurred in the critical window between the forecast and the election. The reason that there have been no cataclysmic political events crashing into election forecasts, at least before 2008, may be that the window in which October Surprise events may take place is quite small. On the one hand, while modern campaigns can seem unendingly long, the time between the forecasts and the election is on the order of only 60 to 70 days. On the other hand, the effective span of a president's term from the time he takes the oath of office until the next presidential election is little less than 1,400 days. If unexpected and major politically charged events are randomly distributed, there is no more than one chance in twenty that one would take place between the time of the forecast and the time of the election.

With these odds election forecasts are normally on safe ground in assuming that an unexpected and major politically charged event will not disrupt the normal course of the fundamentals in the campaign leading to a predictable election result. Blockbuster events happen, but not very frequently and normally not in the window of time between the forecast and Election Day. But 2008 was not a normal election year. The Wall Street meltdown was unexpected. It was major and it was politically charged. It constituted a major violation of the assumption of a normal campaign.

The Wall Street Meltdown

The Wall Street meltdown crisis was that rare unexpected and major politically charged event that struck in the middle of the campaign, derailed the normal campaign and dramatically changed the course of the election.[1] The events began to snowball in mid-September, dominated the remainder of the campaign, and shifted a significant portion of the vote from McCain to Obama. It was a game changer, the final straw for many voters who had been willing to tolerate a good deal of dissatisfaction with the Republican administration up to that point.

The reasons for the Wall Street meltdown went back many years and developed slowly over time (Sowell 2009, Morgenson and Rosner 2011, Will 2011). They are too long and complicated to explain in much depth here. The basic facts were that financial institutions for a variety of reasons over many years made insufficiently secured mortgages and this fueled an unsustainable run-up in real estate prices, a real estate bubble. When energy prices soared out of control, economic growth slowed causing the real estate bubble to burst. This dealt a severe blow to the financial institutions that held the paper on the bad loans. Before the conventions, the problem seemed limited to a few isolated financial institutions (e.g., Bear Stearns), with others having some problems that they could probably weather. In early September, however, the breadth and depth of the problem became clearer. At that point, a number of huge financial institutions were on the brink of insolvency, government policy responses were uncertain, credit markets froze, and the economy was in crisis, perhaps teetering on the brink a deep recession or even a depression.

The first sign that the subprime mortgage mess amounted to something considerably more than a few isolated bankruptcies was on September 7 when the government seized control of Fannie Mae and Freddie Mac, the two government- sponsored mortgage institutions. Eight days later, Lehman Brothers declared bankruptcy and a distressed Merrill Lynch was bought by the Bank of America. The next day, September 16, the government made an $85 billion bailout loan to insurance giant AIG. On September 19, President Bush called the crisis "a pivotal moment for America's economy" and asked Congress to "act now to protect our nation's economic health from serious risk" (Bush 2008). The administration proposed a $700 billion

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[1] Portions of this section of the paper are drawn from or adapted from my 2010 *Presidential Studies Quarterly* article (Campbell 2010b).

financial institutions bailout bill and Congress reconvened to consider it. On September 24, John McCain suspended his campaign to return to Washington for the bailout talks and called for the postponement of the first presidential debate, scheduled just days later. After being turned back in the initial House vote, a revised version of the $700 billion Bipartisan Emergency Economic Stabilization Act was passed and signed by the President on October 3. Meanwhile, the crisis spread. Washington Mutual was seized by the FDIC on September 29. From September 8 to October 9, the stock market lost a quarter of its value (a 25 percent drop in the Dow Jones index and a 28 percent drop in the Standard and Poor's index).

The Economic Context

Some election analysts downplayed the impact of the Wall Street meltdown, interpreting it as just more bad economic news of an already weak economy (Sabato 2009, Abramowitz 2009). According to Larry Sabato, "The evidence of severe economic slowdown was everywhere from the spring to the fall, and Americans already believed that we were in a serious recession" (2009). The economy was weak and this was well known; however, the collapse in economic conditions was a dramatic change that definitely was not expected. It was unanticipated by economic experts as well as by the electorate. Quite notably, the looming Wall Street meltdown and the recession that it would accelerate and deepen went almost unnoticed at the parties' national conventions held just weeks before the economy unraveled. While there was some general talk about a soft economy, it is clear that neither party saw the looming plunge into a deep and prolonged recession only weeks before it happened.

The Wall Street meltdown was certainly unexpected by the economic experts. The sharp economic downturn it produced in the third-quarter of 2008 was devastating to the economy and to voters. There were signs of a weak or sluggish economy. The reported "final" BEA estimates of real GDP growth in the last quarter of 2007 was only .6 of a percentage point.[2] In the early months of 2008, however, the economy appeared only sluggish. The "final" BEA reading for the first quarter of 2008 was .9 percent. The second quarter of 2008, the quarter most important to several election forecasting models, was also sluggish, but the readings at the time suggested greater growth than voters were experiencing. The BEA's "advance" measure of second-quarter growth rate released in August indicated a 1.9 percent growth rate. Its "preliminary" measure released in September (the reading used by many of the election forecasting models) indicated an economy growing at 3.3 percent–a bounce back from the weak numbers in the previous two quarters. The October "final" number was not quite as optimistic, at 2.8 percent, but also indicated an economy gaining traction.

Normally, the "preliminary" measure of real GDP growth rates for the second quarter accurately reflect the true extent of growth, at least as refined measures years later report it to have been. The first regression in table 1 reports the association of the "preliminary" measure to

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[2] In December of 2008, about a month after the election and nearly three months after the financial system began its meltdown, The National Bureau of Economic Research issued its determination that the recession had begun a year earlier in December of 2007.

the BEA's later refined measure of actual economic growth. The coefficient of nearly one indicates that the measure corresponds quite well to reality, though the positive constant indicates that growth was typically under-measured by about a four-tenths of a percentage point.

/Table 1 about here/

In 2008, the second-quarter economy was a good deal weaker than the preliminary measure suggested, either taken at face-value or adjusted via regression. Rather than growing at a rate of 3.3 to 3.7 percentage points, unbeknownst to economic and election forecasters at the time the economy was actually struggling at only six-tenths of a percentage point.[3] If voters respond to the real economy rather than the statistics reported about it at the time, this difference should have caused forecasters to underestimate the Obama vote as Republicans would have suffered more vote loss from an economy growing at half of a percentage point than one growing at over three percentage points.

The larger point is that while the economy in the second quarter was weak, it was still growing (even according to the later refined number) and not in recession (as defined by consecutive negative quarters), much less in a very deep recession. That said, the fact that the economy was a good deal more sluggish than was initially supposed may well have contributed to the meltdown as cash-strapped mortgage holders were less able to keep the mortgage bubble inflated.

The Unexpected Third Quarter Nosedive

The critical turn in the economy and in the election, a turn unanticipated by election forecasters and disrupting the fundamentals that otherwise would have shaped the campaign, came in the third quarter (July to September) of 2008. The Wall Street meltdown and the economic free fall that it precipitated, reflected in a negative four percent change in the real GDP, was unexpected by economic growth in the previous quarter, by leading economic index® of the Conference Board, and by the leading economic forecasters assembled by the Federal Reserve.

As one would expect, there is a general continuity to economic conditions. Economic quarters do not begin with a blank slate. The state of the economy in one quarter generally carries over into the next (Campbell 2011). So economic conditions in the second quarter of 2008 should have been a good precursor of economic conditions in the third quarter leading up to the election. The second, third and fourth regressions in Table 1examine the usual lagged effect of economic conditions in adjacent quarters and how that the third quarter meltdown in 2008 sharply departed from the normally expected growth rate.

The second and third equations in Table 1 examine the association of the BEA's "preliminary" second quarter growth rate and actual economic growth in the following (third)

[3] The six-tenths second quarter growth rate is from the Bureau of Economic Analysis estimates as of July 21, 2011. On July 29, 2011, the Bureau of Economic Analysis revised the second quarter 2008 real GDP growth rate to 1.3 percent.

quarter. The second equation is estimated over the dozen elections from 1960 to 2004 and shows that there has been a significant relationship (r = .62) between the BEA's late-summer reading of the economy's second quarter and real growth rates in the third quarter leading up to the election. This is a generally overlooked reason for why the second quarter growth rate has been so useful in many election forecasting models. The second quarter growth rate is important not only because it measures economic conditions that may affect the mood and decisions of early deciding voters but because it provides an indication of economic conditions in the third quarter of the year than may affect the decisions of late deciding voters. In 2008, the preliminary reading of the second quarter was consistent with an economic growth rate of about 2.5 percentage points in the third-quarter. This expected third-quarter growth rate was 6.5 percentage points higher than the actual four percentage point post-meltdown decline that took place. As the third equation demonstrates, including 2008's surprising economic third-quarter decline in estimating the equation actually causes a twenty point drop in explained variance and causes the coefficient for the second quarter reading to fall short of statistical significance.

The fourth regression in Table 1 examines the lagged effect of the actual growth in the second quarter of election years on the actual growth in the third quarter. Since contemporaneous measures are not involved in this analysis, it extends back to 1948 (the starting point for many election forecasting models). This regression again shows that conditions in the second quarter are normally a precursor of conditions in the third quarter of election years–but were not in 2008. Based on actual growth in the second quarter, we should have expected the economy to grow at an annual rate of slightly over one percent in the third quarter. The Wall Street meltdown, however, caused a four percentage point decline in the third quarter economy with the economy shrinking by nearly seven percentage points in the fourth quarter. By either the reported or the actual growth rates for the second quarter of 2008, the nosedive that the economy took in the third quarter was completely unexpected.

While economic growth in one quarter is normally a good predictor of growth in the next, economists have determined that other indicators are also valuable precursors of economic conditions. The Conference Board created a monthly index out of ten of these predictors, its "Leading Economic Index."® As The Conference Board's Jennelyn Tanchua (2010) observes, "the three D's–depth, diffusion, and duration–of a decline in the LEI can be a useful tool to analyze whether the economy is headed for a recession" (5). With respect to economic collapse of 2008, Tanchua continued that "the six-month decline in LEI quickened at the beginning of 2008, but it was not until October 2008 that it reached and exceeded the threshold decline called for in the three D's rule..." The LEI had missed the onset of the recession (as NBER timed it) by ten months. In fact, The Conference Board reported on October 20, 2008, well into the financial crisis, that the LEI and six of its ten indicators had actually *increased* in September (2008).

A more systematic analysis of the LEI also leads to an expectation of a weakly growing economy in the third quarter of 2008, not one in steep decline. The analysis uses the quarterly LEI series constructed by Robert Erikson and Christopher Wlezien (2008) from three separate series of LEI measures over time. It also uses the cumulative index of LEI that Erikson and Wlezien use in their election forecasting model. In the last two equations in table 1, the LEI change measure and the cumulative LEI index in the second quarter of the election year to predict real GDP growth in the third quarter are used to predict third-quarter GDP growth. As expected both the LEI change and the cumulative LEI index at the second quarter have been significantly correlated with third quarter growth (r = .57 and .67). In 2008, the LEI measure regressions expected a weakly growing economy. The LEI change regression expected third-quarter growth of 1.4 percent and the cumulative index regression expected growth of about a half of a percentage point. In both cases, the expectations were far removed from the reality of a third quarter economy shrinking at a four percentage point rate.[4]

The third-quarter economic nosedive was also unanticipated by economic forecasters in general. On August 12, 2008, half way through the third quarter of the year, the Federal Reserve Bank of Philadelphia released a survey of 47 prominent economic forecasters. These forecasters predicted a third quarter real GDP growth rate of 1.2 percent, slow growth at a slightly weaker rate than the 1.7 percent they had predicted in May, *but not an economy in recession*. Despite the fact that this forecast was made midway through the quarter being forecast and the meltdown occurring only in the last month of the quarter, the actual real GDP growth rate for the third quarter was more than five percentage points lower than the forecast made the economic experts *during* the quarter. The difference between their predicted sluggish economy (1.2 percent growth) and the actual severely retracting economy (-4.0 percent "negative growth" or shrinkage) is about the same magnitude of difference as between a sluggish economy (1.2 percent) and a booming one (about 5 percent growth). The meltdown produced an unanticipated big difference in a very short period.

Table 2 summarizes the various expectations about third-quarter economic growth in 2008 and the extent to which economic reality departed from the expectations. To one degree or another, all signs in 2008 pointed to a third-quarter campaign economy that was growing weakly, but still growing. The range is from growth of about 2 percent to about a half of a point. Not good, but not a disaster. The reality was far different. The Wall Street meltdown produced a four percentage point retrenchment of the economy that would be followed by three more quarters of a shrinking economy. The fourth quarter of 2008, which includes about the last five weeks of the campaign, was even worse. The BEA now estimates that real GDP at this point declined by 6.8 percentage points.[5] The experts did not see it coming and the election forecasts could not and did not take it into account. The crystal clear point emerging from this table is that the experts did not expect the economic collapse the nation experienced in the third quarter of 2008. Having not taken the sharp economic downturn into account, the election forecasts should have severely underestimated the Obama vote.

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[4] As of July 29, 2011, the Bureau of Economic Analysis revised the third-quarter 2008 real GDP growth rate to −3.7 percentage points. The expectation errors in Table 2 are three-tenths of a point smaller as a result, but are still between 4.2 and 5.8 percentage points--substantively unchanged.

[5] As of July 29, 2011, the Bureau of Economic Analysis revised the fourth-quarter 2008 real GDP growth rate to −8.9 percentage points.

/Table 2 about here/

A Major Politically Charged Event

At the time of the national conventions and when the election forecasts were being made, no one anticipated the huge economic crisis that the nation was about to experience. The Wall Street meltdown was certainly unanticipated by the public and changed their views and votes.[6] Evaluations of the economy changed dramatically from before the meltdown to after it. Public evaluations of the economy before the meltdown were not good, but they dropped precipitously with the meltdown. In three Gallup polls of consumer confidence about economic conditions in August and early September, an average of 46 percent rated economic conditions as poor (the lowest rating).[7] The number regarding economic conditions as poor jumped to a mean of 68 percent in two October Gallup polls conducted after the meltdown. The more than twenty point increase in poor ratings of the economy between before and after the meltdown indicate that *the meltdown was not seen by Americans as just more news about a sluggish economy*.

The public understood the gravity of the Wall Street meltdown. A *USA Today* and Gallup poll on September 24 asked respondents how they would describe "the current situation." Forty percent said that it was "the biggest financial crisis in [their] lifetime." Another 24 percent said that it was "a crisis but not the worst in [their] lifetime." Only 10 percent said it was not a major problem. An ABC-*Washington Post* poll on September 29 asked respondents about the potential impact of "the country's current financial situation" on the broader economy. Fifty-two said it was "a crisis." Another 43 percent said "a serious problem but not a crisis." Only five percent thought it was not a crisis or a serious problem.[8]

The political fallout was clear. Much of the public blamed the President and Republicans generally for the crisis. Despite President Bush's low approval ratings going into the election and the polarization of the electorate (a condition that should have made a further ratings drop less likely), his ratings sank even lower during the meltdown. The Gallup Poll conducted from September 5-7 indicated that only 33 percent of the public approved of the President's job performance. As low as that was, the October 3-5 Gallup Poll indicated that it had dropped another eight points to 25 percent. While a pre-meltdown September 5-7 Gallup poll indicated that the candidates were virtually tied with respect to which would better handle the economy (48% Obama to 45% McCain), the post-meltdown October 10-12 Gallup poll showed that Obama had opened up a big lead on the issue (53% for Obama to 39% McCain).

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[6] Portions of this section of the paper are drawn from or adapted from my 2010 *Presidential Studies Quarterly* article (Campbell 2010b).

[7] The consumer confidence ratings are from Gallup at http://www.gallup.com/poll/1609/Consumer-Views-Economy.aspx. Respondents are asked, "How would you rate economic conditions–as excellent, good, only fair, or poor?"

[8] These survey data are from PollingReport.com's Business Issues in the News on November 11, 2008 at http://www.pollingreport.com/business.htm.

The Wall Street meltdown was an exceptional event. It was an entirely unexpected crisis, not even raised as an issue in the conventions just weeks before and unanticipated by economic experts. It is difficult to think of an unexpected event occurring during a previous campaign that was even close to this magnitude. For a significant number of voters who apparently had been willing to look past their displeasure with the Bush administration's performance, the meltdown was the last straw. 9/11, Iraq, Katrina, now the meltdown. Enough was enough. Time for something different. For a polarized center-right nation struggling with values that drew them to a center-right candidate and performance evaluations that tilted them toward a candidate pledged to "change," the meltdown tipped the decision to performance considerations.[9] Americans were worn out by crises and wanted change. Barack Obama was the beneficiary of that sentiment. The exit polls showed that 48 percent of voters said that they were "very worried" that the "economic crisis" would hurt their families and 63 percent of them voted for Obama.

In a little over three weeks from September 14 (allowing some time for the convention bump to recede) to October 6, John McCain's share in Gallup's tracking poll dropped six points from 51 to 45 percent. The Real Clear Politics poll average dropped about 4.4 points over the same time. The polls in the remaining four weeks bounced around a bit without much real change. The election had been decided and not by the pre-campaign fundamentals. The mid-September and October collapse of the economy undoubtedly affected many voters and trumped the election's fundamentals on which the election forecasting models are grounded.

The Consequences for Election Forecasting

The unexpected economic collapse in the third-quarter of 2008 made a difference in the votes of many Americans, a difference that was not anticipated by the election forecasting models. No one saw the collapse coming–not the parties, not the public, not the economic forecasters, and certainly not the election forecasters. To the extent that election forecasters had indicators in their models of the state of the election year economy, those indicators ranged from politically neutral (around three percent growth) to politically somewhat negative (less than one percent growth). None included an indicator that the economy was falling over a cliff. So, what are election forecasters to make of 2008 going forward? Should the 2008 election be used in updating and reestimating the models for use in the 2012 election? Put differently, is there anything useful to be learned by election forecasters from the 2008 election--other than beware of being blind-sided by an economic collapse or other major unexpected events?

In statistical terms, the introduction of a single rogue election or case might be simply addressed using a robust regression technique. The problem with this approach, however, is that it neglects to take into account all of the side-information reported above about how the

[9] A similar but competing explanation of McCain's strong pre and post-convention poll standings relates to race rather than ideology and the conditional nature of retrospective evaluations. Lewis-Beck and Tien (2008) contend that racial prejudice caused support for Obama to be less than what it would normally be in such a Democratic year. This reasoning suggests that racial biases prevented some people from supporting Obama and that these were only overcome by their reactions to the Wall Street meltdown.

economic collapse was both unanticipated and how it had a sizeable effect on voters. Suppose that some of the forecasting models were incorrectly specified in some way, that they had incorrectly measured or specified the fundamentals in a way that happened to create an error that cancelled the error generated by understandably failing to take into account the surprise events of the 2008 financial collapse. With two offsetting errors, the 2008 case might look like any other. The first error would hide the second and the second would hide the first. Forecasters might blithely choose to ask no questions and proceed on their merry way to 2012. Unfortunately, the possibility of two offsetting errors is not merely a hypothetical possibility.

What was the initial error that hid the error of not taking the economic collapse into account? For a number of forecasting models the error was that they specified fundamentals as though retrospective evaluations had the same impact on the vote whether the incumbent was running or not in the race. There is a growing body of research, however, that indicates that retrospective voting is conditional and that open seat contests differ from those with a running incumbent. Voters make greater use of the record of the incumbent presidential party when the incumbent president is running and make less use of that record when the election is for an open-seat (Miller and Wattenberg 1985, Campbell 2001, Lewis-Beck and Tien 2001, Nadeau and Lewis-Beck 2001, Norpoth 2002, Holbrook 2008, Campbell and Dettrey 2009, Campbell, Dettrey, and Yin 2010). Despite their common partisan affiliations, voters understood in 1956 that Stevenson was not Truman, in 1960 that Nixon was not Eisenhower, in 1968 that Humphrey was not Johnson, in 1988 that George H.W. Bush was not Reagan, in 2000 that Gore was not Clinton, and in 2008 that McCain was not George W. Bush. Each successor candidate received some of the credit or blame for the record of their party's departing president due to their common partisan affiliation, but they did not receive the full measure of credit or blame that would have gone to the incumbent.

In 2008, the electorate's pre-campaign retrospective evaluations of President George W. Bush were terrible. About twice as many Americans opposed the war in Iraq as supported it, but it was the economy that became the heavier weight for Republicans to carry. Leading into the 2008 electoral season, the Republican administration had presided over half a year of economic malaise and some had come to believe that the economy was in recession. What made economic matters worse politically was that voters were reminded of these problems and soaring oil prices every time they filled up their cars and paid their heating bills.

The clearest indication of the bad climate for Republicans was President Bush's anemic approval ratings. While presidents need not hold 50 percent of approval in order to win elections, they generally need ratings in the mid-40s. President Bush's approval ratings, according to Gallup, had been below 40% since October 2006 and remained below 35% throughout 2008.[10] In the five Gallup polls conducted in the ten weeks prior to the conventions, his approval rating averaged a mere 31 percent. With less than a third of the public indicating approval of the

[10] Presidential approval for 2008 are from Gallup at http://www.gallup.com/poll/1723/Presidential-Job-Approval-Depth.aspx.

Republican president, there was certainly good reason to think that 2008 would be a Democratic year.

Some forecasters and political observes stopped at this point and concluded that the election was over, that any Democrat could beat any Republican for the presidency in 2008. However, the record of open-seat elections indicates that while these retrospective evaluations would be a burden to 2008 Republican presidential candidate John McCain, voters would understand that McCain was not Bush and McCain would not carry the full weight of Bush's unpopular record. Add a fairly even division of partisanship and ideology, growing polarization, and the candidate's ideological histories (McCain having a more centrist Senate record than Obama), and the fundamentals suggested a closely competitive contest.[11] President Bush's approval ratings were terrible, but a significant number of those disapproving of the President were conservatives and Republicans and these voters would be hard pressed to vote for a liberal Democratic presidential candidate like Barack Obama.

Indeed, a closely competitive contest was shaping up prior to the unanticipated Wall Street meltdown. Figure 1 presents the plot of the two-candidate division of support for John McCain in the Gallup preference poll over the course of the campaign from August to Election Day. Though Obama consistently held a slight lead in Gallup's polls throughout August, the race was fairly close and grew especially close in the weeks immediately before the conventions. Gallup's mean August pre-convention polls of registered voters (August 1 through August 24) had the race at 51.3 percent Obama to 48.7 percent McCain. The Real Clear Politics average of polls over the same period had the race at 51.7 percent Obama to 48.3 percent McCain.[12] A swing of less than two points separated the candidates. If you also consider the higher propensity of registered Republicans to turn out to vote, then going into the conventions the race was a toss-up.[13] Moreover, both Gallup and the Real Clear Politics average of polls had McCain closing on Obama in the days before the Democrats convened for their convention in Denver. Over the ten days leading up to the Democratic convention, Gallup's polls averaged 50.6 percent for Obama to 49.4 percent for McCain and the final two pre-convention Gallup polls had the race tied.

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[11] There were more Democrats in 2008, but this apparently reflected a temporary boost in their numbers. According to adjusted NES data, voters in 2008 were 50 percent Democrats and 43 percent Republicans. Four years earlier they were 47 percent Democrats and 48 percent Republicans (Campbell 2010b). In the 2010 midterm, the parties were again near parity. In terms of ideology, self-described conservatives consistently have outnumbered self-described liberals by a double digit margin.

[12] Throughout the campaign, the Gallup data were obtained at http://www.gallup.com/Home.aspx and the Real Clear Politics averages of the polls were collected from http://www.realclearpolitics.com/polls/.

[13] The higher turnout rate of registered Republicans compared to registered Democrats is evident in National Election Study data for every election from 1952 to 2008. According to NES data, Republicans again had a turnout advantage over Democrats. In the NES survey, 86 percent of Republicans reported that they voted compared to 78 percent of Democrats. An examination of the Democratic vote and the Democrat's standing in the early September Gallup Poll of registered voters in elections from 1948 to 2004 indicates that a Democrat candidate needs to have 51.5 percent in the polls to be expected to receive 50 percent of the vote.

Despite Iraq, a sluggish economy, an unpopular president, and all the elements of the Democratic year, McCain was still quite clearly close to Obama.

/Figure 1 about here/

In late August and early September, both parties staged successful conventions. Democrats reunified around Obama and, largely through McCain's choice of Alaska Governor Sarah Palin as his vice presidential candidate, Republicans became energized about their ticket as well. The net effect slightly favored the Republicans. Comparing the poll standings in the seven days prior to the Democratic convention to the seven days after the later Republican convention, McCain gained 2.6 percentage points among Gallup's registered voters, 2.3 points among the Real Clear Politics average of polls. McCain came out of the conventions with a small lead according to the Gallup and Real Clear Politics readings. McCain held the lead in the Gallup poll for ten days and eleven in Real Clear Politics, and this is accepting both at face value, without making any adjustment for Republicans having a consistently higher turnout rate. This all changed in the next few weeks as the financial system went into meltdown.

The forecasts that relied on an unconditional theory of retrospective voting, contending that retrospective evaluations carry the same weight in open seat contests as they do when an incumbent is running, may have been "accurate" in predicting the vote, but only because they made two offsetting errors. They overpredicted what the Obama vote would be as well as his pre-convention and post-convention poll standings because they specified that McCain would greatly suffer from the poor pre-campaign retrospective evaluations of President Bush (which the pre-convention and post-convention polls showed was not the case). Fortunately for these forecasts, they also underpredicted what the Obama vote would be because they, like everyone else, did not take into account economic devastation of the Wall Street meltdown. The meltdown, because of its timing, affected the eventual vote but not the poll standings of the candidates either in the weeks before the conventions or in the week after the conventions. In effect, the "accuracy" of many forecasts in 2008 was the result of two wrongs (model specification error plus the unanticipated meltdown) making a right.

Credibility in forecasting demands that forecasters be able to explain how the electorate moves from point A to point B. Put differently, they need to explain why the forecasts worked. In the case of 2008, they need to explain why their forecasts worked in the face of an unexpected economic calamity in the midst of the campaign that stunned the electorate. They need to provide sensible answers to the following four questions: (1.) If the pre-campaign fundamentals as specified favored Democrats so decidedly as many forecasts contended, how was it that McCain and Obama were locked in a such a close race in the weeks before the conventions? Obama should have led McCain quite comfortably at this point. (2.) If the pre-campaign fundamentals as specified favored Democrats so decidedly, how was it that John McCain actually emerged from the 2008 conventions with a small lead over Barack Obama? (3.) If the pre-campaign fundamentals as specified favored Democrats so decidedly, without taking the meltdown into account, why did President George W. Bush's approval ratings decline at the same time as John McCain's poll numbers dropped in late September and early October? (4.) If the pre-campaign fundamentals as specified favored Democrats so decidedly, why didn't the documented shift in voter opinions regarding the economic crisis lead to an Obama landslide over McCain? If the fundamentals, without knowledge of the meltdown, supported a 54 percent Obama share of the two-party vote, why wouldn't the unanticipated economic crisis have driven that vote skyward to 58 or 59 percent of the vote for Obama?

Forecasting Moving Forward

Several of the models as specified in 2008 cannot explain how they got from point A to point B, what happened to voters that moved them from where they were before the campaign to where they wound up on Election Day. Without taking the meltdown into account, it is hard to see how these models explain how voters traversed the winding way from a closely fought contest to a slight McCain lead and on to a solid Obama victory.

So where to the models go from here? There are two issues. First, many forecasters should seriously consider revising their models to take into account the conditional nature of retrospective voting and the difference between open seat and incumbent-running elections.

The second issue is what to do about using the 2008 case in estimating future forecasts. There is a strong case to be made for excluding the election from analyses. While any empirical political scientist would be loathe to throw away data, in this instance the case is corrupted by the unanticipated events. If forecasting models are assumed to use data from normal elections to predict the results of the next normal election, then 2008 does not meet the standards. It was not a normal election and therefore should not be used.

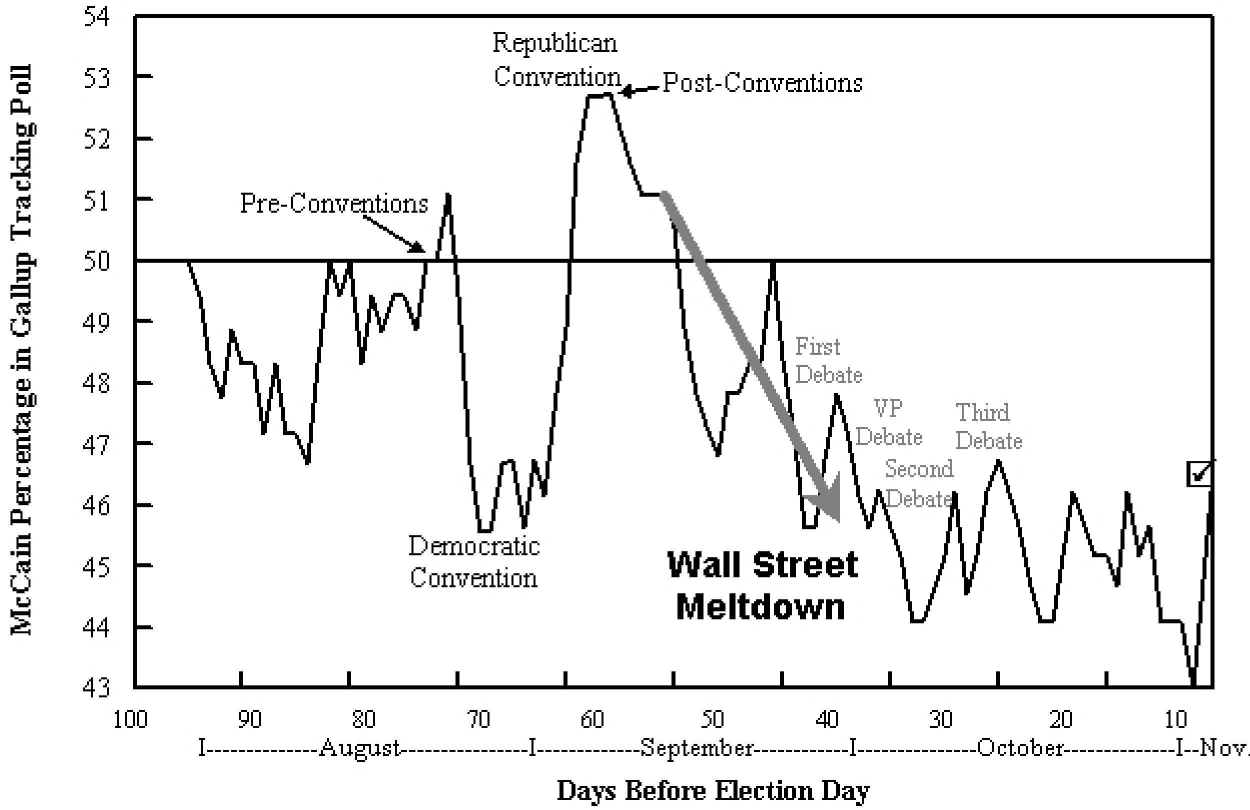
The downside to setting 2008 aside is that many critics of forecasting already think that the enterprise is "cooked." Some question whether data and model choices are politically inspired to yield a desired forecast. Others point to multiple forecasts made over time with the same model as blanketing the field of possible outcomes. There is a legitimate reason why someone might look askance at throwing out an election from the analysis, even if there are strong reasons for doing so. In light of a possible charge of "cherry-picking," it may be best for forecasters to estimate their models both with and without 2008, highlighting the sans-2008 forecast. The worst thing forecasters could do is to act like 2008 was just "business as usual," because it wasn't.

Table 1. Predictors of Second and Third Quarter Economic Growth in Election Years, 1948-2008						
Dependent Variable: Real GDP Growth in 2nd or 3rd Quarter of the Election Year						
	2nd Qtr.Growth	*3rd Quarter Real GDP Growth*				
Predictor Variable	*1960-2008*	*1960-2004*	*1960-2008*	*1948-2008*	*1952-2008*	*1952-2008*
Preliminary Measure of Real (GNP or GDP) Growth, 2nd Qtr.	.99* (.14)	.24* (.10)	.24 (.16)	–	–	–
Real GDP Growth, 2nd Qtr.	–	–	–	.27* (.12)	–	–
Leading Economic Indicators, 2nd Qtr.	–	–	–	–	3.76* (1.51)	–
Cumulative Index of Leading Economic Indicators, 2nd Qtr.	–	–	–	–	–	14.80* (4.35)
Constant	.40	1.78	1.26	.95	1.28	.13
N	13	12	13	16	15	15
Adjusted R^2	.81	.29	.10	.21	.27	.43
Standard Error of Estimate	2.06	1.51	2.39	2.09	2.10	1.86
Durbin-Watson	1.03	2.56	1.75	2.07	1.70	1.34
Actual 2008 GDP Growth	.6	- 4.0	- 4.0	- 4.0	- 4.0	-4.0
Expected 2008 GDP Growth	3.7	2.6	2.1	1.1	1.4	.5
Difference in GDP Growth	3.1	6.6	6.1	5.1	5.4	4.5

Note: *p<.05, one-tailed. Real GDP growth data are from the Bureau of Economic Analysis (7/21/11). The preliminary measures are from the *Survey of Current Business* in the associated years. These were real GDP from 1992 to 2008 and real GNP from 1960 to 1988. The data were obtained for 1956 to 1992 from FRASER, Federal Reserve Archival System for Economic Research (http://fraser.stlouisfed.org/publications/SCB/). Issues from 1996 to 2008 were obtained from the Bureau of Economic Analysis (http://www.bea.gov/scb/date_guide.asp). "Preliminary" measures of economic growth for the second quarter were available in September issues since 1996 and in August issues for earlier years.

Table 2. Expected and Actual Third Quarter 2008 GDP Growth		
	3rd Quarter 2008 Real GDP Growth	
Economic Expectation of 3rd Quarter Real GDP Growth	*Expected Growth*	*Difference from Actual Growth of -4.0 percent*
Regression of Preliminary Measure of 2nd Quarter Growth	2.1	6.1
Regression of Actual 2nd quarter Growth	1.1	5.1
Expected by FED's Economic Forecasters in May, 2008	1.7	5.7
Expected by FED's Economic Forecasters in August, 2008	1.2	5.2
Regression of 2nd Quarter Leading Economic Indicators	1.4	5.4
Regression of Cumulative LEI up to 2nd Quarter	.5	4.5

Figure 1. Percentage of Support for In-Party Candidate John McCain, 2008



Source: Gallup.com

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