Economic Impact of United States Presidential Election Years: A Comparative Analysis

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Abstract

The United States Presidential elections are held every four years, and they bring a time of economic uncertainty that raises many questions domestically and internationally. In this essay, the relationship between the economy and the presidential election years will be analyzed. Some of those include changes in the investment markets like stocks and real estate, the expectation of the president's policies and how they will affect the economy, what the consumers should expect, how each presidential candidate (Donald Trump and Kamala Harris) has different policies, and how those policies will affect the economy of the US and internationally. By looking at stats from past elections and trends, the confusing connection between the economy and the years that have a presidential election can be further understood, showing how the outcome of United States presidential elections impacts the growth and the power of the economy.

Keywords: Elections, Economy (Growth and Decay), Domestic and International Policy, Consumers, Index

Introduction

The United States of America's presidential elections are held every four years. The main political parties are the Republicans and Democrats. The Republicans are red, and the Democrats are blue. The elections are important not only for politics but also for the global and domestic economy. The election brings a time of economic controversy internationally and domestically. The chance of political change brings attention from the world as it can affect several things, such as investments, businesses, consumers, prices, inflation, and much more. The world will closely follow the election as it unfolds in November.

In the past years, the election years have significantly fluctuated in the investment world, mainly in stocks and real estate. The question of which candidate will win creates a lot of fluctuation in these markets. Some things investors expect are changes in taxes, tariffs, foreign policies, and other domestic rules that can cause the stock market to increase or decrease. People in real estate can also expect changes like interest rates, housing policies, and the growth of the market correlated with whether Donald Trump (Republican) or Kamala Harris (Democrat) wins the election.

The policies each president proposes when running for president give us a forecast of their potential economic impact. Let's rewind to the 2020 election and each presidential candidate. Donald Trump focused on improving domestic manufacturing, deregulation, and tax cuts. On the other hand, Biden focused on healthcare reform, climate change, and social equity. In the election of 2024, we will again see opposing views between Donald Trump and Kamala Harris clash.

One thing that is important in election years is the expectations of the consumer. What the consumer thinks about the economy is often influenced by the president/presidential candidates. The thoughts of the consumer are important because it determines how much money they put into the investment, which is the leading creator of economic growth. A good example is stocks. If the consumer trusts the market, they will invest more money. They will not invest as much money if they are pessimistic about the market. In this paper, I will examine how the United States economy changes or fluctuates every four years during the election years.

This case study paper aims to understand how presidential elections impact the economy globally and locally. This will be done using data from the past and future projections. This research paper will analyze the relationship between the United States presidential elections and the economy in several ways. By looking at the data and statistics of election history, the presidential election creates changes such as the investment market, the expectations of the buyer, and the different expectations from each candidate to the economy. This essay's main objective is to look at how the opinions or views of Donald Trump and Kamala Harris are different and how each candidate's potential policies would impact the economy, whether negatively or positively.

Historical Context/Background

Throughout the history of the United States of America, several presidents have made crucial economic decisions that have affected the domestic and international economy. Each election has many consequences for the economy. The entire world watches the United States election, anticipating what changes will happen.

Since the early 20th century, the United States elections have correlated to the economy. A perfect example is the Great Depression in the United States. This was an economic collapse in the late 1920s when Republican Herbert Hoover was in office. Many people did not like his policies and blamed him for the collapse. Then, Democrat Franklin Delano Roosevelt was elected with his New Deal Plans. He was very active in the government to try to save the United States economy, and he proposed a lot of economic legislation with the New Deal. This was the first time in United States history that much legislation was passed regarding the economy. This would become a major part of the president's job regarding the economy and start a legislative trend (Newman, 2022).

Economic uncertainty has become a concern in recent elections. The 2000, 2008, and 2016 elections were key elections regarding the economy. The 2000 election was, of course, controversial because of the recount and Supreme Court drama. The 2008 election was huge because there was an economic recession. Then, in 2016, the election was marked by a shift from liberal policies to Donald Trump's shifts in taxation, tariffs, and trade (Newman,2022).

In the 2000 election, Democrat Al Gore ran for president against Republican George W Bush. On November 26, 2000, Florida declared Bush the winner, getting the 25 electoral votes to win the election three weeks after the official election date. It was a very tight and controversial election, and at the time, Florida was a major swing state. Over the next few weeks, Florida recounted the votes to determine the election winner. It would later come down to a Supreme Court case, where Bush was ruled the winner over Gore, winning the electoral college 271-266. (Kennedy, 2020)

The 2008 election was a major election, and it was controversial due to the economic recession of 2008. In November of 2008, when there was an election between Democrat Barack Obama and Republican John McCain, there was an economic recession known as the Great Recession of 2008. Several steps led to this financial crisis. The housing market was significantly declining, so the Federal Reserve lowered the interest rate throughout 2008 to try and create economic growth. In September 2008, the company Lehman Brothers filed for bankruptcy. For those who don't know, they were an investment banking company from 1850 This and ended in 2008. Essentially, this year's big part of the election was who would "save the economy." Barack Obama won the election, and many saw this as a turning point to try and bring back the economy. (Mayorga, 2015)

The 2016 United States election was also heavily correlated with the economy. In this election Democrat Hillary Clinton went up against Republican Donald Trump. Donald Trump would win the election, and it would shift from Liberal policies for the past eight years to Republican policies under Donald Trump. Before running for president in 2016, Donald Trump was a businessman, so many hoped he would benefit the economy. Donald Trump's policies were marked by changes in taxes, tariffs, international trade, and more. His economic policies during the end of his presidency declined due to the Covid-19 pandemic. (Thorbecke, 2021)

In history, the Republicans and Democrats have had opposing views and ideals. Usually, Republicans go for lower taxes to try to grow the economy. On the other hand, the Democrats typically advocate for higher taxes and more money into welfare programs to focus on economic inequalities in the USA. The two always have opposite ideals on what is happening in the world. Going back into history, we had different parties. At one point, it was Federalists and Anti-Federalists/Democratic-Republicans, Then the Whigs and Democrats, and then Republicans and Democrats. Ever since the end of the American Revolution, there has been a concept of the two-party system. (Newman,2022).

Every presidential administration has different policies in several aspects, like the economy. George W. Bush had many tax cuts, and the goal of this was to boost the economy. Obama focused on fixing the economy after the 2008 recession and his healthcare reform plans. Trump went for tax cuts and deregulation (Newman,2022).

The 2024 election is approaching, and the two candidates are Republican Donald Trump and Democrat Kamala Harris. Donald Trump wants to return to tax cuts and deregulation, while Kamala Harris wants to focus on climate change and social equality.

Analysis of Findings

One common trend in presidential elections is re-election. According to these charts, if the president has an economic recession during their time in office, they have not been re-elected. Two years before the next election, if the president is not in an economic recession, they tend to get re-elected.

No Recession Two Years Before Re-Election

President	Recession?	Re-Elected?
Obama	No	Yes
Bush II	No	Yes
Clinton	No	Yes
Reagan	No	Yes
Nixon	No	Yes
LBJ	No	Yes
Eisenhower	No	Yes
Truman	No	Yes
FDR	No	Yes
FDR	No	Yes
FDR	No	Yes
Wilson	No	Yes

Recession Two Years Before Re-Election

President	Recession?	Re-Elected?
Trump	Yes	No
Bush I	Yes	No
Carter	Yes	No
Ford	Yes	No
Hoover	Yes	No
Taft	Yes	No

(Historical Correlation between Election Years and the Market, 2023)

During the presidential election years, many investments are more risky. Things like stocks and real estate tend to fluctuate up and down a lot more during the years of the elections. This is because there is a lot of uncertainty around who will be the next president and their policies. The new president can have long-term and short-term effects on the economy.

A study in the American Economic Review showed that stocks are more up and down in the months before an election. Three months before the 2020 election of Joe Biden and Donald Trump, the S&P 500 had an average daily fluctuation of about 1.2%, and during non-election years, the daily fluctuation was around 0.8%. This is a big difference, and the margin displays how the economy is affected during US election years. (Huberman et al., 2018)

Different types of stocks can react to each type of policy. An excellent example of this is the 2020 election. According to bloomberg.org, the technology stocks had a 15% pre-election rise because of Biden's policy regarding digital infrastructure. Then, the energy stocks that were more in line with Trump's plan went down 10% after he lost the 2020 election. (Bloomberg - Are You a Robot?, 2024)

The next topic is housing policies surrounding real estate. There are many expectations about housing policies during election years. In his presidency(Democrat/Liberal), Biden's aim was to increase affordable housing, so real estate developers were more cautious. In a

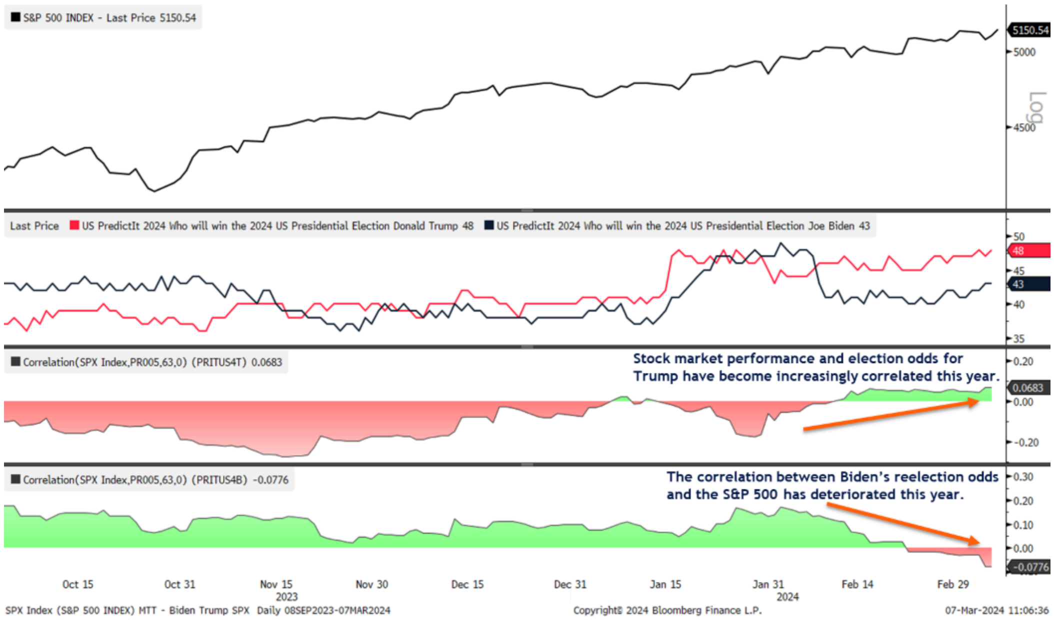
Republican presidency, let’s say, Trump, for example, deregulation is more favorable for real estate developers and investors. Housing policies and real estate are heavily affected by the United States presidential elections every four years.

One important aspect of economics is the consumer. The confidence of the consumer or the investor is very important because that determines how much money will be put in. The confidence of the consumer is affected by the president’s policies and, of course, which candidate wins the election. One index of a data point we can reference is the CCI, which stands for Consumer Confidence Index. In 2020, the CCI went down to 132.6 in February(pre-covid), then In April, at the start of Covid, it dropped to 85.7. The reasoning behind this is Covid and the upcoming election, so there was a lot of uncertainty. (Consumer Confidence Index (CCI), n.d.)

The real estate market is a major investment that is impacted by the United States Presidential election every four years. After every election, the new president impacts the regulatory and fiscal policies, which impact commercial real estate because the new president makes different policies. This election, specifically, according to JP Morgan, with either electoral outcome, will likely require continued federal investment into the Infrastructure and Jobs Act. JP Morgan also states that the election outcome does not entirely shift the real estate market, but essentially, it creates volatility during the years of the election. Post-election, the economic uncertainty tends to disappear as time goes on. (Morgan, 2024)

Certain stocks can react differently depending on which political party wins the election. The main point is that stocks do not favor a party, and each president's reaction post-election can differ. According to Edward Jones, the stock market has performed well under several presidents. The average annualized price return (excluding dividends) of the S&P 500 was 9.6% when a Democrat won and 5.7% when a Republican won. These presidents include Republican (R) and Democratic (D) presidents. The most robust returns occurred during the F. Roosevelt (D), Clinton (D), Eisenhower (R), and Reagan (R) presidencies. The stock market does not necessarily favor a party but varies by election. (Jones, 2024). This November, according to LPL Financial, they favor a Trump victory for the United States Stock market. The website states that a Trump victory would be best for the S&P 500 and provides a chart to support this. (Turnquist, 2024)

The last aspect of the analysis findings that will be showcased is the investment behavior during election years. Retail investors sell and buy investments through a bank or broker. They tend to adjust their portfolio during election years. According to a Charles Schwab survey, an interesting statistic is that in 2020, 45% of people adjusted their portfolio as they anticipated a Joe Biden victory in the election. They shifted their stocks towards technology and healthcare. During 2020, Pfizer's stock peaked because of Covid and Biden’s policies. It is very interesting how investors shirt their portfolios based on the election. (Kleintop, 2024)



Source: LPL Research, Bloomberg. PredictIt.org 08/22/2024

This data shows the correlation between the daily percent change of Biden's and Trump's probability to win the 2024 election, odds from predictit.org. The outlook is slightly altered, as it is now Kamala Harris vs Donald Trump. It is hard to predict Kamala Harris's economic policies in the election. On the contrary, the market appears to favor a Trump victory, and his correlation shows it to the S&P 500, no matter who the Democrat candidate is. It will be intriguing to see who wins the 2024 election and how the market will shift because it is impossible to predict the effect on the economy perfectly. (Turnquist, 2024).

Methodology

This research methodology was carefully structured and systematically executed. Initially, a mentor was consulted to guide the research process. Following this, the research topic was determined. The subsequent step involved the collection of 20-25 credible sources. Data and evidence were then gathered to support the research objectives. The writing process commenced with the abstract, followed by the introduction, gradually bringing the research paper together. Finally, the data analysis was performed. The mentor vetted all sources to ensure credibility, and the MyBib citation tool was utilized to verify the reliability of each source. After compiling the research, the study's formatting and coherence were meticulously refined. This methodology outlines the research process for examining how the United States presidential election influences the economy.

Limitations

During this research, several limitations and learning experiences were encountered. A limitation is an inherent weakness in the study that falls outside the researcher's control. Firstly, a common challenge in conducting research is the potential for bias, particularly when evaluating sources. It is, therefore, essential to ensure that the sources used, especially those related to policies, are neutral and unbiased. Another limitation involved time constraints; although the research was conducted over a few months, which ensured thoroughness, the limited timeframe imposed certain restrictions. The final limitation was the narrow scope of the study. Due to these time constraints, the research focused primarily on the 2020 and 2024 U.S. presidential elections, necessitating the reliance on prior knowledge for historical context. Despite these limitations, the study was completed and remained largely unaffected by these challenges.

Conclusion

The United States presidential elections, held every four years, profoundly influence the domestic and international economy. The uncertainty surrounding these elections creates significant volatility in various investment markets as consumers and investors grapple with the potential implications of new or continued presidential policies. Historical trends, such as those observed during the 2020 election, underscore the pervasive impact of these elections on economic behaviors and outcomes.

During election years, markets, particularly in stocks and real estate, tend to experience heightened fluctuations. This volatility is driven by the uncertainty surrounding the potential economic policies of the presidential candidates. Investors, wary of the possible shifts in taxation, trade, and regulation, often adjust their portfolios in anticipation of the election outcome. The resulting market instability not only reflects domestic concerns but also indicates the global economy's reliance on the United States' economic policies.

This research highlights how the differing policy agendas of presidential candidates, such as those seen with Donald Trump and Kamala Harris, can lead to varied economic expectations and outcomes. Trump's focus on deregulation and tax cuts contrasts sharply with Harris's emphasis on social equity and climate change, illustrating the divergent paths that U.S. economic policy could take depending on the election results. These differing policies influence investor confidence and have long-term implications for the broader economy, affecting everything from consumer behavior to international trade relations.

Moreover, the analysis presented in this paper shows that consumer confidence plays a critical role during election years. For example, the Consumer Confidence Index (CCI) data from 2020 illustrates how external factors like the COVID-19 pandemic and election uncertainty can significantly diminish consumer optimism, leading to reduced spending and investment, which are crucial drivers of economic growth.

The case study also emphasizes the importance of understanding the broader economic context in which elections occur. Historical precedents, such as the financial strategies employed during past elections, provide valuable insights into how current and future elections might impact the economy. By examining past data and trends, this research offers a nuanced understanding of how presidential elections shape economic policies and outcomes.

This paper has explored the intricate relationship between U.S. presidential elections and the economy. The findings suggest that the economic impact of these elections is far-reaching, influencing not only the immediate market responses but also the long-term economic trajectory of the country. As the world awaits the outcome of the upcoming election and the inauguration of the next president in 2025, it remains clear that the policies adopted by the new administration will play a pivotal role in shaping both the domestic and global economy. The ongoing study of these dynamics is essential for predicting and understanding the future economic landscape in the context of U.S. presidential elections.

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