

Real Effects of Markets on Politics: Evidence from U.S. Presidential Elections *

Alan Crane[†] Andrew Koch[‡] Leming Lin[§]

Abstract

Despite the economic importance of the U.S. stock market, there is strikingly little evidence of its impact on elections. Using county-level variation in stock market participation, we document a causal impact of market returns on election outcomes. High-participation counties are more likely to vote for the incumbent party when the market has performed well relative to low-participation counties. The effect is weaker in Republican-leaning counties and more politically active counties, and comes mostly through the intensive margin rather than affecting turnout. Our findings provide evidence of a novel channel through which stock market fluctuations could be transmitted into the real economy.

Keywords: stock market participation, stock returns, elections, voting, real effects

JEL Classification: D72, E3, G10, G18, H31, P16

*For helpful comments and discussions, we thank Diane Denis, Erik Gilje, Elisabeth Kempf, Holger Mueller, Kelly Shue, Erik Zitzewitz, and seminar participants at Baylor University, Ohio University, University of Arizona, University of Pittsburgh, and University of Wisconsin Milwaukee.

[†]Jones Graduate School of Business, Rice University, Houston, TX 77005, U.S.A. Email: alan.d.crane@rice.edu

[‡]Katz Graduate School of Business, University of Pittsburgh, Pittsburgh, PA 15260, U.S.A. Email: awkoch@pitt.edu

[§]Katz Graduate School of Business, University of Pittsburgh, Pittsburgh, PA 15260, U.S.A. Email: llin@katz.pitt.edu.