

Activist Conflict in US Electoral Politics

Abstract

Formal work on the electoral model often suggests that parties or candidates should locate themselves at the electoral center (or origin). Recent research has found no evidence of such convergence. In order to explain non-convergence, the stochastic electoral model is extended by including various kinds of valences, some of which are based on individual and electoral perceptions. These electoral perceptions can be influenced by the contributions made by activist groups to the various parties. We present this formal activist model and then discuss the US presidential election in 2008 and the midterm US election in 2010 in order to evaluate the influence of activist groups, such as the "Tea Party."

1. Introduction

The United States currently faces a number of severe political economic quandaries. First is the economic quandary of debt. From 1993 to 2001, the US public debt to GDP ratio fell from 49% to 33% but has since risen to about 100%. Entitlements, due to the aging "baby boom generation" will, in all likelihood, increase this ratio even more.

The transformation to the global economy coupled with the internet revolution has changed the international structure of comparative advantage and has had a dramatic effect on employment possibilities and on income and wealth distribution. China, India and Brazil are growing rapidly, and China's propensity to save, coupled with its manipulated currency has contributed to the US current account deficit, as well as facilitated the level of US public debt.

The resulting uncertainties have induced violent swings in global stock markets. In the background is the fear of the effects of global warming or "weirding" and concerns about how to deal with the US appetite for oil.¹

Many people now fear that we face a repetition of the 1930's. While the "Great Depression" may have started with the market collapse of 1929, it was the failure of the Austrian Credit-Anstalt Bank in May 1931 that triggered the sequence of bank failures, leading to the Smoot-Hawley Tariff Act in June 1930 and the contraction of world trade.

As Keynes (1936:380) made clear

"at the cost of the enlargement of the functions of government [to involve] the task of adjusting to one another, the propensity to consume, and the inducement to invest" the liberty and efficiency of the world economy could be preserved and enhanced.

From Roosevelt's inauguration on March 3 until June 16, 1933, he pushed through the beginnings of the New Deal, including the Emergency Banking Act, the Economy and Beer-Wine Revenue Act (finishing Prohibition, and providing much needed government revenue), the Agricultural Adjustment Act (to deal with over production, but also with an amendment that essentially took the dollar off the gold standard), and the National Industrial Recovery Act. The

CCC (Civilian Conservation Corps), the FERA (Federal Emergency Authority), the TVA (Tennessee Valley Authority), the NRA (National Recovery Administration), the PWA (Public Works Administration) and the AAA (Agricultural Adjustment Administration) were all created to attempt to deal with unemployment, partly through public works. In June 16, 1933, the Glass-Steagall Act established the Federal Deposit Insurance Corporation (FDIC) in the United States and introduced banking reforms, some of which were designed to control speculation. Regulation Q allowed the Federal Reserve to regulate interest rates in savings accounts. Although these policy moves predated Keynes (1936) they were consistent with Keynes's ideas, and Keynes himself had written to the President in 1933 to praise him as a trustee of the social system.

By 1938, Roosevelt faced opposition from southern Democrats and had to give way on an anti-lynching bill. As Kennedy (1999: 343) notes, "Roosevelt judged and the six week filibuster confirmed [that a frontal assault on the South's racial system] would irretrievably alienate the white southern establishment beyond repair and indefinitely deadlock the Congress."

The Fair Labor Standards Act (FLSA) of 1938 was the last of the New Deal legislation. The severe economic downturn in 1937, caused partly by attempts to balance the budget, led to a Republican gain of 81 seats in the House and 6 seats in the Senate in the 1938 election. Keynes again wrote to Roosevelt in 1938 recommending public ownership of the utilities, nationalization of the railroads and subsidies for housing.

The New Deal efforts to regulate and stimulate the economy eventually paid off in a significant increase in real US GDP as well developments in new technologies and large increases in factor productivity (Field, 2003; Allen, 1994). These productivity increases were due to the ability of large corporations to increase output even when reducing labor input.

Fearing another Depression after World War II Keynes argued for a clearing Union, with assets of the order of \$500 billion in current terms. After the death of Roosevelt in April 1945, however, the US pursued a strategy that might be termed "hegemonic internationalism," triggering European recovery by providing liquidity through the Marshall Plan.

By 1960 however, it had become obvious that there was an imbalance in the demand and supply of international liquidity. (Triffin, 1960).

Efforts were made in 1964-1968 to maintain stability through the creation of special drawing rights, but the Smithsonian agreement in December 1971 effectively dismantled the post-war Bretton Woods system. In 1977, the McCracken report suggested that inflation was gathering pace in the OECD countries because of the so-called "political business cycle" and the continuing US payments deficit.² The commodity boom that followed led to the formation of OPEC and a price rise from about \$1.80/barrel to \$11.65 in January 1974. The chaos of the 1970's forms the background to the dramatic changes implemented after the presidential election of Ronald Reagan in November, 1980 and the election of the Conservative Party in the UK under Margaret Thatcher in 1979. For these two leaders, government was the problem. Inflation was eventually stripped from the US and UK and economic growth resumed. From 1982 to through the 1988 election of George H.W. Bush, US GDP grew at about 3%/annum, but the trade deficit also grew, to about \$115 billion. With the collapse of the Soviet Union in 1989, the US became the world hegemon. Globalization, coupled with democratization and capitalization gathered speed. From Clinton's election in 1992 to 2000, US GDP/capita grew at about 3.5% while the trade deficit grew to \$376 billion.

During Clinton's second administration, the provisions that prohibited a bank holding company from owning other financial companies were repealed on November 12, 1999, by the Gramm--Leach--Bliley Act, named after its co-sponsors Phil Gramm (R, Texas), Rep. Jim Leach (R, Iowa), and Rep. Thomas J. Bliley, Jr. (R, Virginia). This ended the regulatory regime that had been put in place during the New Deal.

Globalization has meant that 2 billion people have joined the world's labor force since 1989. It is no surprise that this labor “oversupply shock” has meant that global inequality has decreased but that income inequality in all developed economies has increased. Deregulation in the US has contributed to the expansion of global trade and investment, but has also meant that the global market became potentially unstable. In 2006 the US balance of payments deficit reached \$750 billion, while its trade deficit with China reached \$130 billion just for the first six months of 2011. As a result, China currently has foreign exchange reserves of \$3.2 trillion and holds about \$1 trillion in U.S. Treasury and government agency bonds.³

Japan also has about \$800 billion in Treasury assets. This savings glut or “capital oversupply shock” generated low interest rates in the global economy. Cheap money enabled a significant increase in household debt in the US, rising from about 65% of GDP in 1995 to 100% of GDP in 2009.

In a deregulated world, and in a context of moral hazard, financial institutions competed for profits, speculating in risky assets, particularly derivatives based on the housing market. The presumption that the market could completely regulate itself proved unfounded, just as Minsky (1986) has argued. This imbalance can lead to the kind of instability that Keynes feared.

If I may be allowed to appropriate the term speculation for the activity of forecasting the psychology of the market, and the term enterprise for the activity of forecasting the prospective yield of assets over their whole life, it is by no means always the case that speculation predominates over enterprise. As the organization of investment markets improves, the risk of the predominance of speculation does, however, increase ... Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. (Keynes, 1936: 158-9)

Lehman Brothers filed for bankruptcy on September 15, 2008, and the bubble burst. The market crash has left the US with a public debt of about \$15 trillion. US household net worth fell from about \$70 trillion in 2007 to about \$50 trillion in 2009 (Alpert et al, 2011).

Even in the year from June 2010 to 2011 house values fell by \$1 trillion, and about 15 million homeowners find themselves owing more than their homes are worth.

The contagion spread to Europe, where the debt overhang meant that many states found themselves at risk of default.

The EU was forced to put together the European Financial Stability Fund (EFSF) rescue package of €750 billion, able to issue bonds for up to € 440 billion for support to Euro member states in difficulty. European banks were also at risk, holding over \$2 trillion in risky sovereign debt from Greece, Italy, Ireland, Greece, Spain and Portugal.⁴

In fact the first political effects of the debt crisis were the fall of the Labour government in the United Kingdom in May 2010 and the defeat of the Republican administration in the US in November 2008. The Conservative government in the UK dealt with its debt problem by an intervention of the order of 13% of GDP by the Bank of England. In the US the intervention by the Federal Reserve has been of order 11% of GDP. In contrast the EU intervention has been

limited to about 2% of EU GDP, which is why the euro debt crisis continues to destabilize bond markets. In 2011 alone the governments of Ireland, Finland, Portugal, Denmark, Slovakia, Greece, Italy and Spain have all fallen. Director of the White House [United States National Economic Council](#)

The complex web of the global economic crisis has created a great deal of uncertainty in the market as well as in the political systems of both Europe and the United States. In Europe there is much debate whether the eurozone can be sustained, though on December, 2011, twenty-six of the twenty-seven member states (all but the UK) agreed to a deepening of the EU.

In the United States, this uncertainty coupled with decades of rising income and wealth inequality has resulted in increased political volatility and partisan strife. Unlike the indebted EU polities, the US government appears to be relatively stable. The TARP (troubled Assets Relief Program) allowed the [United States Department of the Treasury](#) to purchase or insure up to \$700 billion of "troubled assets," and this appears to have been sufficient to stabilize the debt problem in the US. According to Suskind (2011) TARP was largely conceived by Larry Summers, Director of the White House [United States National Economic Council](#), and Tim Geithner, current [U.S. Secretary of the Treasury](#), under Obama and

But the increase in partisan rancor resulting from the need to deal with total federal debt of over \$14 trillion has highlighted the extreme lack of convergence in U.S. partisan politics. The remainder of this paper seeks to explain this non-convergence in the 2008 and 2010 election cycles in the United States.

2. *Activist Politics*

2.1 *The logic of the argument*

Wise government should be able to address the quandaries described above. Madison's logic in Federalist X (Madison [1787] 1999) was that a Republic could exhibit a "probability of a fit choice", suggesting that voters would make their choices on the basis of judgments rather than simply interests.

In this paper we argue that the US polity is currently unable to make wise decisions due to the same structural defect that Jefferson believed that the US faced in the late 1700's and early 1800's. Jefferson followed the arguments of Henry St. John, Viscount Bolingbroke that the noble constitution of England had been destroyed by the crass commercialization and corruption of the Whig ascendancy in the 1720s. Jefferson thought that the opening of Hamilton's First Bank of America in 1791 would also allow capital to corrupt. He fought and won the election of 1800 to preserve the "Empire of Liberty" (Kramnick, 1990, 1992).

In the early 20th century both Teddy Roosevelt and Woodrow Wilson had contested the two presidential elections as Progressives, opposed to the power of commercial interests and the increasing economic inequality that had resulted (Gould, 2008). Indeed Chace (2004) suggests that the difference between Roosevelt and Wilson was that Wilson espoused a Jeffersonian belief in liberty and competition (through free trade etc.) while Roosevelt believed in a Hamiltonian acceptance, but regulation, of industrial capitalism.

The thesis of this paper is that just as in 1800 and 1912, the US faces a quandary that is essentially constitutional and involves the interrelationship between the polity and the economy. There are a number of components to the current quandary:

(i)

The election of L.B. Johnson in 1964 was the beginning of a new "political realignment" that involved the social dimension of civil rights as well as the well understood economic dimension involving taxes and the like.⁵

A similar realignment almost occurred at the 1938 election but Roosevelt avoided the confrontation with Southern Democrats and the Democrat coalition remained intact.

(ii)

We shall use factor analysis to construct these dimensions in recent elections. The social axis involves attitudes to African Americans, abortion, civil right for gays, traditional values and equality. The economic axis involves government services, size of government, health care, a preference for the market over government and a belief that welfare expenditure should be decreased. As Putnam and Campbell (2010) have shown, religiosity of voters is related to many of the beliefs that characterize the social axis. The second axis has become more important over time. The principal consequence of this realignment has been the gain of the South by the Republican Party. We suggest that Reagan won the 1980 Presidential election as a result, and eventually the Republicans gained both Houses of Congress in 1994.

The change in the regulatory regime that has occurred in the last 30 years is a consequence of this political realignment.

(iii)

Although the social axis has become electorally more important, economic growth before the bursting of the balloon has increased the ability of those with economic assets to influence elections. We term these *economic activists*. Increasing income and wealth inequality has contributed to the enhanced power of these activists. Indeed, an arms race between the parties has also increased activist power. At the same time, the significant benefits that have accrued to economic activists have led to a radicalization of economic activist preferences. By this we mean that their preferences, in comparison to the distribution of electoral preferences, have become more extreme.⁶

The Supreme Court decision, *Citizens United v. Federal Election Commission*, on January 21, 2010, removed many restrictions on the money that could be raised for political campaign and in essence deregulated elections.

(iv)

The existence of two political dimensions has meant that it is possible for winning coalitions to be constructed that combine both axes. In particular, the Republicans have benefitted from a coalition of conservative economic and conservative social activists. This has led to dramatic differences in the pattern of voter characteristics in states that tend to vote Democrat in contrast to those who tend to vote Republican (Abramowitz and Saunders, 2005; Gelman (2008).

(v)

Models of elections are typically based on voter preferences alone. Recent studies of US elections (Clarke et al., 2009, 2011) have emphasized the electoral perception of the character traits of candidates. Such perceptions can be influenced by the media, and in turn therefore by the money that candidates spend. We suggest this provides the logic for the arms race between candidates.

(vi)

Acemoglu and Robinson. (2008) have discussed the ability of elites to exert *de facto* power in order to collect economic rents thus inducing inefficiencies in the political economy. Earlier

work by Olson (1982) also focused on the ability of interest groups, such as labor, to exert undue influence because of the nature of the democratic machinery. The model that we propose suggests that the de facto elite power is a result of a kind of rent seeking that occurs in the context of a political prisoners' dilemma.

(vii)

the influence of money and the polarization within Congress suggests that at the heart of the political quandary is a need to reconsider the constitutional separation of powers in the US (Posner and Vermeule, 2011).

In the rest of the paper we consider models of US Presidential elections for 2000 to 2008, and then discuss the details of the contest between Obama and Congress over the last three years in order to gauge the validity of the above argument.

2.2. Modeling Elections

As we have noted, the formal literature on electoral competition has tended to focus on preferences rather than judgments. Models of two-party competition have typically been based on the assumption that parties or candidates adopt positions in order to win, and has inferred that parties will converge to the electoral median, under deterministic voting in one dimension (Downs, 1957; Hotelling 1929), or to the electoral mean in stochastic models.⁷ These models of political convergence at least imply that political choice lead to a moderate or centrist outcome. On the contrary, there is extensive evidence that politics has become polarized with the two major parties far removed from one another.

In this paper we consider a theory of political choice which accounts for polarization in terms of activist influence. To do this, we first offer evidence that the political space is at least two dimensional. The nature of this policy space can be inferred for recent elections from voter surveys. For example, Figure 1 presents an estimate of the distribution of voter preferences (or preferred positions) in the U.S. presidential election of 2004.

[Insert figure 1 here]

(This figure is based on factor analysis of the American National Election Study (ANES) for 2004. In the next section we give more details on the factor model that we used for the 2004 and 2008 Presidential elections.)

The first-left right dimension represents preferences (or attitudes) towards government expenditure and taxes and can be interpreted as a economic axis.

The economic axis is defined so that voters who believe in the free market and that spending on welfare programs should be decreased are located on the right of this x-axis.

The second north-south or social dimension reflects attitudes on social policy, particularly civil rights, as well as voter opinions about abortion etc.

The social axis is defined so that voters who support civil rights for gays and believe that abortion should be readily available are located to the north of this y-axis.

Figure 1 also shows estimates of the positions of the two presidential candidates.

[Insert Figure 1 here]

Because the political space is two-dimensional, parties in the United States must be coalitions of opposed interests. Figure 1 also shows a partisan cleavage line obtained from a simple logit model of the 2004 Presidential election. This cleavage line joins the preferred points of voters who, according to the logit model, would choose the candidates with equal probability of one half. The logit model gives

$$\rho_{dem} = \frac{\exp(a + bx_i + cy_i)}{1 + \exp(a + bx_i + cy_i)}$$

with $(a, b, c) = (-0.2, 1.34, -0.93)$. Setting $\rho_{dem} = \frac{1}{2}$ we obtain the equation

$$y = 1.44x - 0.21.$$

This equation almost passes through the point $(0, -0.21)$ and suggests that the Democrat candidate, Kerry, had a slight advantage over the Republican candidate, Bush. This partisan cleavage line separates respondents who tend to vote Democrat, and generally are located in the upper left quadrant, from those who tend to vote Republican, in the lower right quadrant.

Figure 2 shows the mean positions of Democratic and Republican Party voters and activists. The figure shows the standard error bars for these estimates, with larger error bars for activist estimates.

[Insert figure 2 here]

Figure 2 suggests that though the Republican party contains both socially conservative and socially liberal groups, almost all Republican activists are located in the lower right of the policy space. In opposition, all the Democrat party activists tend to be located in the upper left of the policy space. The mean activist estimates are

$$\begin{bmatrix} \text{Act: 2004} & \text{Rep} & \text{Dem} \\ x & 1.41 & -0.20 \\ y & -0.82 & +1.14 \end{bmatrix}.$$

The two dimensionality of the political space is corroborated by work in social psychology that finds that there are in essence four "quadrants" to morality: Liberal secularists (upper left), the religious left (lower left), Libertarians (upper right) and social conservatives (lower left). The social psychological literature defines the left hand domain in terms of an emphasis on justice while the lower domain is defined in terms of authority.

More precisely, Graham et al., (2009) use factor analysis on five moral traits, including "compassion", "fairness", "loyalty", "authority" and "purity". These define the four moral clusters. Mondak (2010) uses regression analysis to explore the effects of personality traits such as "openness", "conscientiousness", extraversion", "agreeableness" and "emotional stability" on political choice. Using the 2006 Congressional Election Study (CES) he shows that "openness" and "conscientiousness" are correlated with liberal / conservative ideology respectively. Moreover, "openness" is associated with agreement with legalised abortion and weakly associated with opposition to Federal income tax cuts. This analysis is suggestive of a correlation between the two dimensional trait space and the two dimensional policy space.

[Insert Figure 2 here]

A similar analysis for the 2000 contest between Gore and Bush gives an almost identical result with a partisan cleavage line given by

$$y = 1.87x - 0.34.$$

Figures 3 and 4 show the distribution of voter and activist preferred positions for the 2008 election. For this election, the partisan cleavage line is given by the equation

$$y = 0.82x - 0.4$$

which passes through the point $(0, -0.4)$. This cleavage line suggests the greater advantage of the Democrat candidate, Obama, over McCain. Notice that the cleavage lines from 2000 to 2004 to 2008 had rotated slightly, in a clockwise direction, suggesting that the social axis had become increasingly important. (See also Krasa and Polborn, 2011, for a similar observation.)

Table 1a gives the two dimensional factor model based on the ANES 2008 Survey, while Tables 1b and Table 2 give the results of the estimates of mean positions of voters, activists and the candidates in 2008.

[Insert Figures 3 and 4 and Tables 1a,b and 2 here]

The mean activist estimates are

$$\begin{bmatrix} \text{Act: 2008} & \text{Rep} & \text{Dem} \\ x & 1.41 & -0.20 \\ y & -0.82 & +1.14 \end{bmatrix}.$$

A comparison of (3) and (5) provides some evidence that activist average positions have become more extreme between 2004 and 2008. One way to check this inference is to compare (3) and (5) in terms of the electoral standard deviations obtained from the factor models for the two elections.⁸

Using $(\sigma_x\sigma_y) = (0.76, 0.76), (0.9, 0.91)$ for 2004 and 2008 respectively, this correction gives

$$\begin{bmatrix} \text{Act: 2004} & \text{Rep} & \text{Dem} \\ x/sd & 0.72 & -0.64 \\ y/sd & -0.63 & +0.99 \end{bmatrix}, \begin{bmatrix} \text{Act: 2008} & \text{Rep} & \text{Dem} \\ x/sd & 1.56 & -0.22 \\ y/sd & -0.91 & +1.26 \end{bmatrix}.$$

The correction suggests that Republican activists have, on average, become much more radical in their preferences in both axes relative to the average distribution of electoral preferences. In contrast, Democrat Party activists have on average, become more moderate on the economic axis, and more radical on the social axis.

Performing the same calculation for non-activists for the parties we find:

$$\begin{bmatrix} \text{2004} & \text{Rep} & \text{Dem} \\ x & 0.30 & -0.33 \\ y & -0.28 & +0.37 \end{bmatrix}, \begin{bmatrix} \text{2008} & \text{Rep} & \text{Dem} \\ x & +0.72 & -0.17 \\ y & -0.56 & +0.36 \end{bmatrix}$$

$$\begin{bmatrix} \text{2004} & \text{Rep} & \text{Dem} \\ x/sd & 0.40 & -0.43 \\ y/sd & -0.37 & +0.49 \end{bmatrix}, \begin{bmatrix} \text{2008} & \text{Rep} & \text{Dem} \\ x/sd & 0.80 & -0.19 \\ y/sd & -0.62 & +0.40 \end{bmatrix}.$$

Average voter positions for the two parties have therefore shifted somewhat towards the two opposed quadrants, but not as much as the activist mean positions. The increasing dominance of

"Tea Party" social conservatives in the Republican Party, and indeed the fact that the Congressional Republican positions in the recent election of 2010 appeared to be fairly "radical" in the lower right quadrant of the political space, caused some prominent Republicans to consider a change of party allegiance to the Democrats, while some Democrats would consider a shift to the Republicans. These would, on the one hand, be cosmopolitan, socially liberal but economically conservative Republicans (in the upper right quadrant) or on the other hand, populist, socially conservative but economically leftist Democrats (in the lower left quadrant). As activists on the "trailing edge" of the cleavage line change party allegiance, then the positions of the two parties shift. Shifts in the activist coalitions for the two parties thus cause a transformation of the partisan cleavage line. This phenomenon appears to be a fundamental aspect of U.S. politics: This can be interpreted as a clockwise rotation in the political space.

We argue that the fundamental changes in voter choice result not only from changes in the distribution of electoral preferences, but from the shifts in electoral perceptions about the competence and character traits of the political candidates.⁹

These perceptions are influenced by the resources that the candidates command. In turn, these changes in perceptions are the consequence of the shifting pattern of activist support for the candidates. The essence of the underlying model is that it attempts to endogenize the resources available to candidates by modelling the contracts they can make with their supporting activists. The activists must solve their own optimization problem by estimating the benefit they receive from their contributions and deciding what resources to make available to their chosen candidate.

In recent years, the importance of activist contributions has increased, and this has enhanced the influence of activist groups. Indeed, Herrera, Levine and Martinelli (2008) observe that spending by parties in federal campaigns went from 58 million dollars in 1976 to over 1 billion in 2004 in nominal terms. The Center for Responsive Politics estimates that election spending, including candidate spending, went from about \$3.5 billion in 2000 to \$4.6 billion in 2004 to \$5.3 billion in 2008.

The empirical and formal models that we discuss here provide a reason why electoral politics has become so polarized in the United States. This model of activist polarization accounts for the "disappearing center" in politics (Gelman, 2010) and the paradox that poor states seemingly tend to vote Republican while rich states tend to vote Democrat (Abramowitz (2010)). The recent 2011 census stated that the poorest state was Mississippi, followed by Arkansas, Tennessee, West Virginia, Louisiana, Montana, South Carolina, Kentucky, Alabama and North Carolina. All these are Republican strongholds.

Moreover, this polarization appears to have benefited the wealthy in society and may well account for the increase in inequality in income and wealth distribution that has occurred over the last decade. (Hacker and Pierson, 2006, 2010, Pierson and Skocpol, 2007).

Essentially there is an arms race between candidates over these resources due to a feedback mechanism between politics and economics. As the outcome of the election becomes more important, activists become increasingly aware that the resources they provide have become crucial to election victories, and they become more demanding of their chosen candidates. Because of the offer of resources, candidates are forced to move to more radical positions, and polarization in candidate positions increases, even though there may be little change in the degree of polarization of the electorate.

Over the long run we see two forces at work. First, the continuing "circumferential" realignment induced by a slow rotation of the partisan cleavage line, as activists switch party allegiance. Secondly, a "radial" polarization that occurs at times of political quandary, caused by

economic downturn or shocks to the global political economy, inducing a change in the distribution of voter preferred points.

In the next section we present an outline of the model that we use. In Section 4 we discuss the effect of the 2008 election and its aftermath. Section 5 discusses the midterm election of 2010 and the ensuing conflict between the Presidency and Republican groups in Congress. The last section makes some brief comments about the viability of the constitutional balance between executive and legislature in the United States.

3. An Outline of the Model.

In the standard spatial model, only candidate positions matter to voters. However, as Stokes (1963, 1992) has emphasized, the non-policy evaluations, or valences, of candidates by the electorate are equally important. In empirical models, a party's valence is usually assumed to be independent of the party's position, and adds to the statistical significance of the model. In general, valence reflects the overall degree to which the party is perceived to have shown itself able to govern effectively in the past, or is likely to be able to govern well in the future (Penn, 2009).

Over the last decade a new literature has developed that considers deterministic or probabilistic voting models including valence or bias towards one or other of the candidates.¹⁰

Recent work has developed an empirical and formal stochastic electoral model based on multinomial conditional logit methods (MNL). In this model, each political candidate j , was characterized by an *intrinsic or exogenous valence*, λ_j

This model can be considered to be Downsian, since it was based on a pure spatial model, where the estimates of valence were obtained from the intercepts of the model. It was possible to obtain the conditions for existence of "a local Nash equilibrium." (LNE) under vote maximization for a parallel formal model using the same stochastic assumptions as the MNL empirical model. A LNE is simply a vector of candidate positions with the property that no candidate make a small unilateral move and yet increase utility (or vote share). Note also that a pure strategy Nash equilibrium (NE) is a vector of candidate positions so that no candidate has a unilateral incentive to deviate so as to increase vote share. Thus any NE must be a LNE.

The mean voter theorem asserts that all candidates should converge to the electoral origin (where the electoral origin is the mean of the distribution of voter preferred points).

Empirical analyses of the 2004 and 2008 U.S. presidential elections that are mentioned in this paper have corroborated the earlier work by Enelow and Hinich (1989) and show, by simulation on the basis of the MNL models, that presidential candidates should move close to the electoral origin. However, the empirical work resulting in Figures 1 through 4 also suggests that presidential candidates do not in fact adopt positions close to the electoral center.

This paper offers a more general model of elections that, we suggest, accounts for the difference between the estimates of equilibrium positions and actual candidate positions. The model is based on the assumption that there are various additional kinds of valence. The first is referred to as activist valence. When party, or candidate j adopts a policy position z_j , in the policy space, X , then the activist valence of the party is denoted $\mu_j(z_j)$. Implicitly we adopt a model originally due to Aldrich (1983). In this model, activists provide crucial resources of time and money to their chosen party, and these resources are dependent on the party position.

Each candidate then uses these resources to enhance his image before the electorate, thus affecting his overall valence. In the empirical model we can also estimate two additional aspects of valence which we call trait valence and sociodemographic valence.¹¹

We assume voter utility is given by the equation

$$\begin{aligned} u_{ij}(x_i, z_j) &= \lambda_j + \mu_j(z_j) + (\theta_j \cdot \eta_i) + (\alpha_j \cdot \tau_i) - \beta \|x_i - z_j\|^2 + \epsilon_j \\ &= u^*_{ij}(x_i, z_j) + \epsilon_j. \end{aligned}$$

Here $u_{ij}(x_i, z_j)$ is the observable component of utility. The constant term, λ_j , is the intrinsic or exogenous valence of party j . The function $\mu_j(z_j)$ is the component of valence generated by activist contributions to candidate j . The term β is a positive constant, called the spatial parameter, giving the importance of policy difference defined in terms of a metric induced from the Euclidean norm, $\|\cdot\|$, on X . The vector $\epsilon = (\epsilon_1, \dots, \epsilon_j, \dots, \epsilon_p)$ is the stochastic error, whose multivariate cumulative distribution is the Type 1 extreme value distribution, denoted by Ψ . The terms $(\theta_j \eta_i)$ are individual specific scalars giving the influence of sociodemographic characteristics of the voter on vote choice. Similarly the terms $(\alpha_j \tau_i)$ model the influence on voter choice of the voter's perceptions of the character traits of the candidates. The term $\mu_j(z_j)$, is j 's activist support function. We suggest that we can indirectly estimate $\mu_j(z_j)$ by modelling the election using the other terms in (9).

The ANES 2008 gave individual perceptions of the character traits of the candidates, in terms of "moral", "caring", "knowledgeable", "strong" and "honest". We performed a factor analysis of these perceptions as shown in Table 3.

[Insert Table 3 here]

ANES 2008 also gave socio-demographic characteristics of respondents by gender, ethnicity, education, income and class. Table 4 shows the result of the logit models of the electoral response: (1) is a pure spatial, (2) is a spatial model with traits, (3) is a spatial model with socio-demographics while (4) is a full model with socio-demographics and traits. Using Table 4 (Model 4) we can estimate vote maximizing equilibria for the model and compare this to the positions of the candidates. Notice that the trait variables strongly influence the vote share functions, The analysis does suggest that these trait variables also provide information that is to some degree independent of the policy preferences of the voters.

[Insert Table 4 here]

In the theoretical model just proposed, activist valence is affected by party position, As party j 's activist support, $\mu_j(z_j)$, increases due to increased contributions to the party in contrast to the support $\mu_k(z_j)$ received by party k , then (in the model) all voters become more likely to support party j over party k .

The problem for each party is that activists are likely to be more extreme than the typical voter. By choosing a policy position to maximize activist support, the party will lose centrist voters. The party must therefore determine the "optimal marginal condition" to maximize vote share. Theoretical results give this as a (first order) balance condition. Moreover, because activist support is denominated in terms of time and money, it is reasonable to suppose that the activist function will exhibit decreasing returns. When these activist functions are sufficiently concave, then the vote maximizing model will exhibit a Nash equilibrium.

It is intrinsic to the model that voters evaluate candidates not only in terms of the voters' preferences over intended policies, but also in terms of electoral judgments about the quality of the candidates. These judgments are in turn influenced by the resources that the candidates can raise from their activist supporters.

Grossman and Helpman (1996), in their game theoretic model of activists, consider two distinct motives for interest groups:

Contributors with an electoral motive intend to promote the electoral prospects of preferred candidates, [while] those with an influence motive aim to influence the politicians' policy pronouncements.

In the activist model the term $\mu_j(z_j)$ influences every voter and thus contributes to the electoral motive for candidate j . In addition, the candidate must choose a position to balance the electoral and activist support, and thus change the position adopted. This change provides the logic of activist influence.

We argue that the influence of activists on the two candidates can be characterized in terms of the activist gradients.

Because each candidate is supported by multiple activists, we extend the activist model by considering a family of potential activists, $\{A_j\}$ or each candidate, j , where each $k \in A_j$ is endowed with a utility function, U_k , which depends on candidate j 's position z_j , and the preferred position of the activist. The resources allocated to j by k are denoted $R_{jk}U_k(z_j)$. Let $\mu_{jk} \left(R_{jk} \left(U_k(z_j) \right) \right)$ denote the effect that activist k has on voters' utility. Note that the activist valence function for j is the same for all voters. With multiple activists, the total activist valence function for candidate j is the linear combination

$$\mu_j(z_j) = \sum_{k \in A_j} \mu_{jk} \left(R_{jk} \left(U_k(z_j) \right) \right)$$

The balance condition suggests that the aggregate activist gradients for each of the two candidates point into opposite quadrants of the policy space.

Bargains between the activists supporting candidate j then gives a *contract set* of activist support for candidate j , and this contract set can be used formally to determine the balance locus, or set of optimal positions for each candidate. This balance locus can then be used to analyze the pre-election contracts between each candidate and the family of activist support groups.

Consider now the situation where these contracts have been agreed, and each candidate is committed to a set of feasible contracts as outlined in Grossman and Helpman (1996). Suppose further that the activists have provided their resources. Then at the time of the election the effect of this support is incorporated into the empirical estimates of the various exogenous, socio-demographic and trait valences. Consequently, when we estimate these valences we also estimate the aggregate activist influence. The estimated positions of the candidates can then be regarded as incorporating policy preferences of the activists.

Electoral models where candidates have policy positions, as proposed by Wittman (1977), Calvert (1985), Duggan and Fey (2005), and Duggan (2006) implicitly assume that candidates would be willing to accept defeat because of an adherence to particular policy positions. We argue that it is more plausible that the estimated positions of the candidates are the result of

maximizing candidate utility functions that balance the electoral consequences of position-taking with the necessity of obtaining activist resources to contest the election. This calculation requires an estimate of the degree to which these resources will influence the perceptions that the electorate has of the various valences associated with the model.

A recent literature on elections has focused on the effects of campaign expenditure on US election results.¹²

Herrera et al., (2008) suggest that electoral volatility forces candidates to spend more, while Ashworth and Bueno de Mesquita (2007) suppose that candidates buy valence so as to increase their election chances. Meirowitz (2008) notes that “candidates and parties spending this money thought that it would influence the election outcome.” Downsian models of competition cannot explain how candidates choose spending campaign levels or what factors influence these decision." Meirowitz proxies the choice of expenditure in terms of candidate choice of effort, but his model does not explicitly deal with an endogenous budget constraint.

To apply the above model, suppose there are two dimensions of policy, one economic, and one social. These can be found by factor analysis of survey data as indicated above.

As Figure 5 indicates, we can represent the conflicting interests or bargains between the two activist groups of supporters for the Republican Party, located at R and C, by a "contract curve." This represents the set of policies that these two groups would prefer their candidate to adopt. It can be shown that this contract curve is a catenary whose curvature is determined by the eccentricity of the utility functions of the activist groups. We call this the Republican contract curve. The Democrat activist groups may be described by a similar contract curve (This is the simplest case with just two activist groups for each candidate. This idea can be generalized to many activist groups.)

[Insert Figure 5 here]

The first order condition for the candidate positions (z_{dem}^*, z_{rep}^*) to be a Nash equilibrium in the vote share maximizing game is that the party positions satisfy a balance equation. This means that, for each party, $j = dem \text{ or } rep$, there is a weighted electoral mean for party j, given by the expression

$$z_j^{el} = \sum_i \omega_{ij} x_i .$$

This is determined by the set of voter preferred points $\{x_i\}$. The coefficients $\{\omega_{ij}\}$ for candidate j will depend on the position of the other candidate, k. The balance equation for each j is then given by:

$$[z_j^{el} - z_j^*] + \left(\frac{1}{2\beta}\right) \left[\left(\frac{d\mu_j}{dz_j} \right) \Big|_z \right] = 0.$$

Here we call $[z_j^{el} - z_j^*]$ the *electoral gradient* for party j, since in the absence of activist resources, the equilibrium condition would be given by the condition

$$[z_j^{el} - z_j^*] = 0.$$

The second term in (12) is called the *activist gradient* for party j . We suggest that this first order condition will guarantee that the vector $z^* = (z_{dem}^*, z_{rep}^*)$ will be a pure strategy Nash equilibrium of the vote maximizing political contest.

4. The 2008 Election

In the model for the 2008 election given in Table 4, we used a simulation procedure and found that the equilibrium for the model (4) in Table 4 was given by the vector

$$z^{el} = \begin{bmatrix} & \text{McCain} & \text{Obama} \\ x & +0.13 & +0.10 \\ y & -.12 & -0.07 \end{bmatrix}$$

However, as discussed above, and shown in Table 2, the estimated candidate positions were given by

$$z^* = \begin{bmatrix} & \text{McCain} & \text{Obama} \\ x & 0.59 & -.22 \\ y & -.37 & +0.75 \end{bmatrix}$$

Assuming that z^* reflects the influence of activists, then we obtain an estimate of the activist gradient of

$$\frac{1}{2\beta} \left[\frac{d\mu}{dz} \right] = z^* - z^{el} = \begin{bmatrix} & \text{McCain} & \text{Obama} \\ x & 0.59 & -0.22 \\ y & -0.37 & +0.75 \end{bmatrix} - \begin{bmatrix} & \text{McCain} & \text{Obama} \\ x & +0.13 & +0.10 \\ y & -0.12 & -0.07 \end{bmatrix} = \begin{bmatrix} & \text{McCain} & \text{Obama} \\ x & +0.46 & -0.32 \\ y & -0.25 & +0.75 \end{bmatrix}.$$

The activist mean positions are

$$z^{\{act\}} = \begin{bmatrix} & \text{Rep} & \text{Dem} \\ x & 1.41 & -0.20 \\ y & -0.82 & +1.14 \end{bmatrix}$$

This suggests that activists pull Republican candidates to the lower right quadrant of the policy space, while Democrat activists pull the Democrat candidate to the upper left of the policy space.

Similar conclusions can be made about Congressional election. In the following sections we discuss the conflicts that ensue between a Democratic President and Congress.

4.1. After the 2008 Election

Despite Democratic majorities in both houses of Congress the precise policy outcomes from President Obama's administration were still initially dependent on the degree to which

Republicans in the Senate blocked Democratic policies through the use of the filibuster. Early in his administration some of Obama's policy initiatives successfully passed through Congress but only after navigating Republican opposition in the Senate. For example, on January 15, 2009, the Senate voted 52 against and 42 in support of Obama's economic recovery program. On February 6, 2009 an agreement was reached in the Senate to reduce the size of the stimulus bill to \$780 billion, in return for the support of three Republican senators. On February 9 the Senate did indeed vote by the required majority of 61 to halt discussion of the stimulus bill, thus blocking a filibuster. A compromise bill of \$787 billion, including some tax cuts, was agreed upon by both the House and Senate within a few days; the bill passed the House with 245 Democrats voting in favor and 183 Republicans voting against while the Senate passed it with just 60 votes. The bill was immediately signed by President Obama.

As Obama commented afterwards:

Now I have to say that given that [the Republicans] were running the show for a pretty long time prior to me getting there, and that their theory was tested pretty thoroughly and it landed us in the situation where we've got over a trillion dollars' worth of debt and the biggest economic crisis since the Great Depression, I think I have a better argument in terms of economic thinking.

On February 26, 2009 Obama proposed a 10 year budget that revised the priorities of the past, with an estimated budget deficit for 2009 at \$1.75 trillion (over 12% of GDP). It included promises to address global warming and to reverse the trend of growing inequality. The \$3.6 trillion Federal budget proposal passed the House on April 2, 2009 by 233 to 196, with even "blue dog" conservative Democrats supporting it, but no Republicans.

Obama's social policies even received a modicum of success; on January 22, 2009 a bill against pay discrimination passed the Senate 61 to 36. The House also gave final approval on February 4, by a vote of 290 to 135, to a bill extending health insurance to millions of low-income children. Forty Republicans voted for the bill, and 2 Democrats voted against it. When the bill was signed by President Obama, it was seen as the first of many steps to guarantee health coverage for all Americans but it was not clear that the battle over broader healthcare legislation would take most of 2009.

Obama gained another important victory when the Senate confirmed Sonia Sotomayor as Supreme Court Justice on August 6, 2009, by a vote of 68 to 31. She is the first Hispanic and the third woman to serve on the Court. Similarly, Obama nominated another woman, Elena Kagan, to the high court and she was confirmed almost exactly one year after Sotomayor on August 7, 2010 by a vote of 63 to 37. Though adding two left-leaning female justices to the court has increased the number of women on the Supreme Court to an all time high of 3, it has not fundamentally changed the ideological makeup of the current court which still regularly splits 5 to 4 in favor of more right-leaning rulings.

In October, 2009, one group identifying as populist Republicans, the "Tea Party" activists opposed Obama's policies on health care so much that they began lining up against the centrist Governor Charlie Crist in the GOP Senate primary. Ultimately, Crist was forced to become an Independent and a Tea Party darling, Marco Rubio, was nominated as the GOP candidate for the Florida Senate seat (and ultimately won the seat, beating Crist handily). Similarly, on November 1, 2009 the centrist Republican candidate, Dede Scozzafava, decided to drop out of the special election in New York's 23rd congressional district and endorse the Democrat candidate, Bill Owens. Owens won the election in a district that had been Republican since 1872.

As the Healthcare debate heated up over summer and fall of 2009 it became clear that Republicans were intending to continue utilize their blocking coalition as long as possible to stymie Obama and the Democrats. Interestingly, some Democrats contributed to this opposition as well; in the health bill vote in the House in early November 2009, 219 Democrats with 1 Republican voted for the bill, while 176 Republicans and 39 "Blue Dog" Democrats voted against. On Saturday, November 21, the Senate voted 60 to 40, along partisan lines, to move to the final discussion on the health care bill.

By December 19, Senator Bernie Sanders of Vermont, an independent who caucuses with the Democrats, as well as Democrat Senators Ben Nelson and Sherrod Brown, had agreed to a compromise bill. This brought the size of the coalition to the critical size of 60 votes, sufficient to force a decision in the Senate.¹³

Finally on Christmas Eve, 2009, the health bill passed in the Senate, again by 60 votes with 39 Republicans opposed. However, the victory by Republican Scott Brown in the special Senate election in Massachusetts on January 19 deprived the Democrats of the 60 seat majority required to push through the legislation. On February 25, 2010, an attempt to reach a bipartisan compromise failed, and there was talk of using a manoeuvre known as "reconciliation" to force through a health bill using simple majority rule.¹⁴

Finally, on March 25, after strenuous efforts by President Obama and House speaker, Nancy Pelosi, the House voted 220-207 to send a health care bill to the President. Republicans voted unanimously against the legislation, joined by 33 dissident Democrats. The Senate passed the bill by simple majority of 56 to 43, as required under reconciliation and the President signed a draft of the bill, the "Patient Protection and Affordable Care Act," on March 23, 2010 and an updated version of the bill on March 30, 2010.

While it seemed that "gridlock" ensued over the health care legislation, several other major pieces of legislation passed with far less opposition. On February 22, 2010 and again on March 17, 2010 the Senate voted 62-30 and 68-29 respectively to implement two multi-billion-dollar "jobs creation" programs. Even though the vote to end debate on the Financial Regulation bill failed to obtain the required supra-majority on May 19, 2010, it eventually passed the Senate. On July 15, 2010 the Senate voted 60-39 for the Dodd--Frank Wall Street Reform and Consumer Protection Act, and this was signed into law by President Obama on July 21.

As of November, 2010, there remained four major bills to put through Congress: A Deficit Reduction Act, an Expanded Trade and Export Act, a Comprehensive Immigration Act, and an Energy Independence and Climate Change Act. Despite passage by the House on June 26, 2009, the Waxman-Markey climate change bill, formally called the American Clean Energy and Security Act (ACES), never reached action in the Senate. On July 22, 2010, the effort to push forward with the Climate Change Act collapsed due to Republican opposition to a carbon tax. A major problem also remained with regard to the Bush tax cuts of 2001 and 2003, which were due to expire at the end of 2010. If these bills, and the resolution of the tax cuts, were to prove impossible to enact because of Republican opposition, the electorate could blame either party or simply oppose any incumbent due to their lack of efficacy at passing legislation.

Given these uncertainties surrounding policy choices in the legislature, it is hardly surprising that voters in the United States doubt that government can be effective. Part of the problem would appear to be the degree of political polarization that results from the power of interest groups located in the opposed quadrants of the policy space.

4.2. Impact of the 'Citizens United' Decision in 2010

As a result of the Supreme Court decision, *Citizens United v. Federal Election Commission*, on January 21, 2010, which removed limits on campaign contributions, it is clear that the importance of activist contributions will only increase. In the November, 2010 mid-term election large amounts of money were funnelled through non-profit advocacy groups that can accept unlimited donations and are not required to disclose their donors. As of November 1, 2010, it was estimated that these groups had spent \$280 million, 60% from undisclosed donors. Three "super PAC" Republican activist groups, the US Chamber of Commerce, American Crossroads and the American Action Committee had spent \$32.8 million, \$26.6 million and \$17 million respectively. The pro-Democrat America's Families First Action Committee raised \$7.1 million.

In his State of the Union address in late January, President Obama said the court had "reversed a century of law that I believe will open the floodgates for special interests --- including foreign corporations --- to spend without limit in our elections."

Supreme Court Justice Samuel Alito, appointed by George W. Bush, broke from traditional judicial decorum at State of the Union speeches to shake his head in disagreement with the President, reportedly muttering the words "that's not true."

Dworkin (2010) later called the Supreme Court decision "an unprincipled political act with terrible consequences for the nation."

In July, 2010, the Federal Election Commission had approved the creation of two "independent" campaign committees, one each from the left and right, expressly designed to take advantage of the lack of spending limits. One committee was set up by the Club for Growth, the conservative advocate for low taxes and less government. The other, called Commonsense Ten, with close ties to the Democrats, will raise money from individuals, corporations and unions. Both groups will be able to spend unlimited amounts, thanks to the *Citizens United* decision. A Democrat effort to impose new campaign finance regulations before the November congressional election was defeated on July 27 when all 41 Senate Republicans blocked a vote on a bill that would force special interest groups to disclose their donors when purchasing political advertisements. A second attempt at cloture on the bill failed by 59 to 39 in the Senate on September 23.

Former Bush advisors, Karl Rove and Ed Gillespie, first formed American Crossroads as a 527 independent-expenditure-only committee, but was required to disclose donors. They then formed Crossroads Grassroots Policy Strategies (GPS) as a 501(c)(4) social welfare nonprofit. This means it does not need to disclose donors, but is not supposed to be used for political purposes. GPS spent \$17 million. The Chamber of Commerce is a 501(c)(6) nonprofit, but corporations that donate to the Chamber must disclose these contributions in their tax filings. These corporations include Dow Chemical, Goldman Sachs, Prudential Financial. The most highly publicized was a singular donation in excess of \$1 million from Rupert Murdoch's News Corporation.

In addition to the external activist groups, South Carolina Senator, Jim DeMint, used the Senate Conservatives Fund as a PAC to funnel about \$1million to many of the most right-wing of the Tea Party candidates. Indeed, a key element of the successful Republican campaign was that these activist bodies were able to target House and Senate races where incumbent Democrats were weak.

In the 2010 election cycle total campaign spending was about \$4 billion, with Republican spending somewhat higher than total Democrat spending. The extremely high level of expenditure (especially for a midterm election) is of particular interest because there is evidence

that the policy positions of activists on the social axis have become more polarized over the last forty years (Layman et al. 2010). This polarization appears to have benefited the wealthy in society and may well account for the increase the inequality in income and wealth distribution that has occurred (Hacker and Pierson, 2006, 2010; Pierson and Skocpol, 2007; Reich 2010).

5. Implications of the 2010 Election

In the midterm elections the electorate blamed incumbents, particularly Democrats, for their economic woes. In November, 2010, the Democrats lost 63 seats in the House, leading to a Republican majority of 242 to 192. In the Senate the Democrats lost 6 seats but retained a majority of 51 to 46 (with 3 Independents).

This was the backlash predicted by Bunch (2010). However, the Democrat losses may be due to the spending pattern. The New York Times analysis suggested that in 21 House districts where groups supporting Republican candidates spent about \$2 million, they won 12.

Many of the newly elected members of Congress received the backing of the Tea Party and vocally subscribed to extreme policy stances like abolishing the Federal Reserve, unemployment benefits, and even income taxes. Further, preliminary demographic studies of the Tea Party indicate that they are predominantly older, middle class suburban and rural white Americans.¹⁵ This demographic make-up leads one to postulate that the Tea Party is a representation of a populist movement supported primarily by elites in the South and West. Although tea party supporters are opposed to deficit spending, they generally are supportive of social security and medicare, and want to reduce the deficit by cutting other programs. Perhaps most striking about the Tea Party is the immediate impact they had on Congress itself with the Republican House leadership creating a special leadership post for a Representative from the Tea Party wing.

Because of the plurality nature of the U.S. electoral system, parties have to build a winning coalition of mobilized disaffected activists and current party activists. Many of the Tea Party activists see themselves as conservative independents that are opposed to big business. This is despite the fact that large corporations and wealthy individuals heavily funded many of the Tea Party candidates campaigns. Even before the 112th Congress entered session the Republican Party stood up for the wealthy benefactors by insisting on blocking all legislation during the lame duck session until the wealthiest two percent of Americans received the same extension on their tax cuts that the other 98 percent were set to receive. This Republican measure included blocking discussion on repealing the "Don't Ask, Don't Tell" legislation, immigration reform legislation, a nuclear arms treaty and even legislation allocating funds to provide healthcare to September 11, 2001 first responders.

In an effort to close his career with parting advice about compromise, retiring Connecticut Senator Chris Dodd gave his valedictory speech on the Senate floor on November 30, 2010 with remarks including the following:

From the moment of our founding, America has been engaged in an eternal and often pitched partisan debate. That's no weakness. In fact, it is at the core of our strength as a democracy, and success as a nation. Political bipartisanship is a goal, not a process. You don't begin the debate with bipartisanship -- you arrive there. And you can do so only when determined partisans create consensus -- and thus bipartisanship. In the end, the difference between a partisan brawl and a passionate, but ultimately productive, debate rests on the personal relationships between Senators.

Another elder statesman in the Senate, Indiana's Richard Lugar, clearly felt the same way as Senator Dodd after the 2010 election as he defied the Republican Party over their various demands. Senator Lugar has said that the environment in Washington was the most polarized he had seen since joining the Senate in 1977. John C. Danforth, the former Republican senator from Missouri, remarked that

If Dick Lugar, having served five terms in the U.S. Senate and being the most respected person in the Senate and the leading authority on foreign policy, is seriously challenged by anybody in the Republican Party, we have gone so far overboard that we are beyond redemption.

President Obama eventually struck a deal to allow the tax cuts to be extended for all Americans (in exchange for an extension of unemployment benefits) despite the fact that even the most positive economic forecasts do not predict that these tax cuts to the wealthy will bring unemployment down by more than 0.1 percent over the two year lifespan of the tax cut extension. This compromise angered many in the liberal wings of Democratic Party as they saw compromise as a betrayal of President Obama's progressive values. In the wake of persistent attack by several prominent liberal Democrats, Obama invited former President Bill Clinton to give a White House press conference in support of the compromise. Involving the former President in this way can be seen as either an act of desperation or an attempt by the administration to harken back to the 1990's (or earlier) when compromise was an acceptable political tactic.¹⁶

On Monday December 13, 2010 the Republican bargaining ploy worked. The Senate voted to halt debate on the tax cut bill. Other provisions of the \$858 billion bill would extend unemployment insurance benefits and grant tax breaks for schoolteachers, mass transit commuting expenses and landowners who invest in conservation techniques. The compromise bill overwhelmingly passed the Senate on December 15 by a vote of 81 to 19. Despite accusations by House Speaker, Nancy Pelosi, that Republicans were forcing Democrats "to pay a king's ransom in order to help the middle class" at midnight on December 16 the measure passed with 139 Democrats and 138 Republicans in favor and 112 Democrats and 36 Republicans opposed. President Obama signed the bill into law the next day.

After this initial compromise was struck, the logjam seemed to have broken as Congress began debate on repealing "Don't Ask, Don't Tell," on the passage of the nuclear arms treaty, and on temporary measures to continue funding the federal government into 2011. This step toward compromise and productivity irked Senators Jon Kyl (Republican from Arizona) and Jim DeMint (Republican from South Carolina) who criticized Majority Leader Harry Reid (Democrat from Nevada) for "disrespecting" the institution and the Christmas holiday by putting so much work on the Congressional docket that Senators might need to return to work during the week between Christmas and New Year. These statements by Senators Kyl and DeMint provide a stark reminder of the roadblocks to compromise in activist driven politics. House and Senate Republicans derailed a \$1.2 trillion spending measure put forward by Senate Democrats, and promised to use their majority in the new House to shrink government. On December 21 Congress did approve a temporary spending bill up until March 2011.

On December 18, the "Dream Act" to allow illegal immigrant students to become citizens failed on a Senate vote of 55-41, but the Senate did vote 65 to 31 to repeal the "Don't Ask, Don't Tell" legislation, making it possible for gays to serve openly in the military. The House had previously approved this repeal by 250 to 175.

On December 20, the Senate voted 59 to 37 to reject an amendment to the new arms control treaty, New Start, with Russia. The amendment would have killed the treaty because any change to the text would have required the United States and Russia to renegotiate the treaty. Two days later the Senate voted 71 to 26 for the treaty. This treaty was seen as the most tangible foreign policy achievement of President Obama's administration. Thirteen Republicans joined a unanimous Democratic caucus to vote in favor, exceeding the two-thirds majority required by the Constitution.

As Obama said:

I think it's fair to say that this has been the most productive post-election period we've had in decades, and it comes on the heels of the most productive two years that we've had in generations. If there's any lesson to draw from these past few weeks, it's that we are not doomed to endless gridlock. We've shown in the wake of the November elections that we have the capacity not only to make progress, but to make progress together.

However, the Democrats in Congress increasingly represent the richest and the poorest constituencies, while the Republican Party is no longer the party of the wealthy but of the disillusioned middle class and the ultra-wealthy. Given the results of the 2010 elections, the indications for the 112th Congress are that, with a divided Congress and increasingly activist driven politics, conflict between the two parties will not only continue but escalate in the run up to the 2012 election.

5.1. Gridlock in the 112th Congress

One of the first moves by the House in the new 112th Congress was to vote, on January 19, 2011, to repeal the Health Care Bill by a margin of 245 to 189. However, this repeal will not be able to pass the Democrat majority in the Senate and would obviously not be signed by President Obama.

In early April, 2011 a shutdown of the government was only just averted by a compromise that cut the budget by \$38 billion. After much wrangling, the House passed legislation on April 14, to finance the federal government for the rest of the fiscal year. The final House vote was 260 to 167, with 59 members of the House Republican majority and more than half the Democratic minority voting against the legislation. The bill also passed the Senate, 81 to 19, again with many Republicans opposed. On April 15, the House voted 235 to 193 to approve the fiscal blueprint for 2012, drafted by Representative Paul D. Ryan, Republican of Wisconsin and chairman of the Budget Committee. The blueprint proposed a cut in expenditure of \$5.8 trillion over the next decade.

By July, it seemed that the political system was again in gridlock with the parties completely polarized over the question of the US public debt. The debt ceiling was at \$14.3 trillion and the current US Treasury debt was \$14.29 trillion. Of this \$6.2 trillion is held by the US government, \$2.7 trillion in the Social Security Trust Fund, \$1.9 trillion in other government agencies and \$1.6 trillion in the Federal Reserve. China and Hong Kong hold \$1.3 trillion, other countries hold \$3.2 trillion, the remaining \$3.6 trillion is held by pension funds etc. Republicans demanded a reduction in spending and the maintenance of tax cuts, while Democrats basically wanted the opposite, continued spending on social programs and tax increases on certain segments of the population.

The House on Friday July 29, finally approved a plan for a short-term increase in the debt ceiling and cuts in spending. The vote was 218-210, with 22 Republicans unwilling to support the efforts by House Speaker, John A. Boehner, to get a bill approved. This ended a week of intense fighting among Republicans. The game then shifted to the Senate which tabled the House proposal. On August 1 the House of Representatives passed a compromise bill, 269-161, supported by Democrats, increasing the debt ceiling by \$400 billion, with an additional \$500 billion through February, with spending caps of over \$900 billion. A newly designed joint committee was vested with the responsibility of determining future cuts of over \$1 trillion. The Senate passed the bill 74-26 on August 2 with 19 Republicans, and 6 Democrats and one independent voting against. President Obama immediately signed the bill into law. Despite the eventual compromise on the debt ceiling, on August 5, 2011 Standard and Poor, the credit rating agency, downgraded US Federal debt from AAA to AA+, and the Dow industrial index dropped about 20% in the following days. However, demand for U.S. Treasury Bonds increased.

Later in August the 2012 Republican Presidential primary season began. Early frontrunners included Tea Party darlings Representative Michele Bachman, Representative Ron Paul, and Governor Rick Perry. Former Governor Mitt Romney openly admitted seeking a more centrist route to the nomination but he will have to contend with activist money such as the PAC "Make Us Great Again" which plans on supporting Rick Perry to the tune of \$55 million.

On September 13, President Obama acted on the economic turmoil set off by the Debt Ceiling debate, Standard and Poor downgrade and continuing European debt crisis by sending a \$447 billion jobs bill to Congress. Initial reaction from Republicans indicated a willingness to accept some measures of the bill, coupled with an insistence on keeping tax cuts for the wealthiest and resistance to closing corporate loopholes.

The debate over the jobs bill highlights the fact that, despite media attention to the contrary, Obama has attempted to attract and retain pro-business social liberals with his response to the economic crisis. In addition to naming General Electric CEO Jeffrey Immelt as Chairman of the President's Council on Jobs and Competitiveness, the President's second Chief of staff is former Commerce secretary and bank executive William Daley. These steps, along with his massive budget proposals providing relief to banks and other businesses in order to address the economic down-turn, has angered many in populist circles. Meanwhile, insistence on closing corporate tax loopholes and the spectre of increased financial regulation, has eroded business support for the President.

This lack of support in both the populist and cosmopolitan quadrants leaves the President and his party vulnerable to attacks by traditionally conservative Republicans as well as to the more populist demands of the Tea Party. As a result of persistently high unemployment rates, populist anger has spiked and it is possible that the Republican Party will gain votes from the blue-collar voters who are suffering the most from the economic collapse. Should the Republican party cater to the traditional populist demands expressed by those in the Tea Party, they will be hearkening back to an era of old-style populism as expressed by William Jennings Bryan: anti-Wall Street, anti-banking, anti-Detroit, anti-immigration, and pro-evangelical religion. This will result in a party realignment to a situation where the socially liberal and economically conservative "cosmopolitan" Democrats are opposed to populist Republicans. That is, the Republican Party may begin to move to the lower left quadrant of the policy space, while some business interests in the upper right quadrant will switch to the Democrats. For example, on April 28, 2010 Arlen Specter, the Senator from Pennsylvania, shifted his allegiance from the Republican Party to the Democrats.

Indeed, over the long term, the partisan cleavage line may rotate further in a clockwise direction.

6. Conclusion

We argue that money has made US politics irrational. With money playing an increasingly large role in recent elections, this irrationality and non-convergence to the electoral center is likely to persist. Moreover, powerful activist groups in the cosmopolitan and populist sectors have the potential to draw in politicians and shift the partisan cleavage line between parties. Were it not for the resources the activist groups provide it would be irrational for politicians to move toward these activist bases. Simply put, activists influence politicians so they adopt policies that would be electorally irrational, were it not for money.

Popper (1988) argued that plurality electoral systems, otherwise known as "first past the post" were to be preferred to proportional electoral systems because they gave voters a clear choice. As we have seen, the constitutional structure of the US polity, coupled with the influence of money has recently tended to gridlock. Although there is the appearance of choice for the voters, Government has been unable to come to grips with the severe quandaries briefly mentioned in the introduction. The absence of effective choice by the US increases uncertainty in policymaking thus creating a difficult situation for business and international leaders attempting to make long-term investments and policy decisions. Indeed, as Posner and Vermeule (2011) have argued, that the United States needs to reconsider its constitutional separation of powers in the presence of such gridlock and uncertainty.

Notes

¹ Too many books to name have addressed these quandaries, but we can mention Reich (2010), Friedman and Mandelbaum (2011), Milanovic (2010), Rachman (2011), Lessig (2011) and Steyn (2011), Edsall (2012).

² In 1970 the US had a trade surplus of \$2.2 billion but by 1977 this had turned into a deficit of \$2.7 billion.

³ See Morgenson and Rosner (2011) for discussion, as well as the account by Clinton (2011) of these events.

⁴ Alpert et al. (2011) note that China saves about 50% of GDP, invests about 15% and consumes only about 35%

⁵ The European levels of total public debt/GDP, currently are: Greece 66%, Italy 121%, Ireland 109%, Portugal 106%, Belgium 96%, Germany 83%, France 87%, Britain 80%, Spain 56%.

⁶ This has been noted by Fiorina, Abrams and Pope (2005) and Fiorina and Abrams (2009). See also Abramowitz (2010) and Layman et al., (2010) on polarization among activists.

⁷ See the earlier work by Enelow and Hinich (1989), Erikson and Romero (1990) and more recent work by Duggan (2006), and Patty, Snyder and Ting (2009).

⁸ Details of the 2008 factor model are given in the next section.

⁹ Below we present an empirical model that links electoral perceptions to candidate character traits such as moral, caring, knowledgeable, strong, honest, intelligent, optimistic.

¹⁰ Adams (2001), Ansolabehere and Snyder (2000), Aragonés and Palfrey (2002), Banks and Duggan (2005), Groseclose (2001) and McKelvey and Patty (2006).

¹¹ See Clarke et al., (2011) and Sanders (2011) for empirical analyses using the voters' perceptions of candidate character traits. Sociodemographic valence refers to the propensity of members of various groups to highly regard one or the other of the candidates.

¹² See Coate (2004) for example. An earlier paper by Groseclose and Snyder (1996) looked at vote buying, but in the legislature. See also Ansolabehere et al. (2003).

¹³ Cloture is a motion aimed at bringing debate to an end. It originally required a two-thirds majority, but since 1975 has required a super-majority of 60.

¹⁴ Reconciliation is a measure whereby a bill can pass the Senate with a simple majority; the legislation must be shown to be budget neutral over a ten-year span in accordance with the Byrd rule.

¹⁵ Skocpol and Williamson (2010) have been collecting survey and interview data on the Tea Party since its emergence and although their findings are only preliminary, all indications are that Tea Party members are a very specific demographic sub-group with traditional populist concerns. See also Rasmussen and Schoen (2010).

¹⁶ It is worth noting that the Founding Fathers repeatedly cited the need for compromise as one of the greatest strengths of the U.S. political system.

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Activist Conflict in U.S. Electoral Politics

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Table 1b Descriptive data for the 2008 Presidential Election

	Econ Policy			Social Policy			<i>n</i>
	Mean	s.e.	95% C.I	Mean	s.e	95% C.I	
Activists							
Democrats	-0.20	0.09	[-0.38, -0.02]	1.14	0.11	[0.92,1.37]	80
Republicans	1.41	0.13	[1.66, 1.16]	-0.82	0.09	[-0.99,-0.65]	40
Non-activists							
Democrats	-0.17	0.03	[-0.24,-0.11]	0.36	0.04	[0.29,0.44]	449
Republicans	0.72	0.06	[0.60,0.84]	-0.56	0.05	[-0.65,-0.46]	219
							788

Table 2. Obama and McCain electorally perceived positions

Question	Obama	McCain
Estimated position on economic policy	-0.22	0.59
Estimated position on social policy	0.75	-0.37

Table 3 Factor loadings for candidate traits scores 2008

Question	Obama Traits	McCain Traits
Obama Moral	.72	-.01
Obama Caring	.71	-.18
Obama Knowledgeable	.61	-.07
Obama Strong	.69	-.13
Obama Honest	.68	-.09
Obama Intelligent	.61	.08
Obama Optimistic	.55	.00
McCain Moral	-.09	.67
McCain Cares	-.17	.63
McCain Knowledgeable	-.02	.65
McCain Strong	-.10	.70
McCain Honest	-.03	.63
McCain Intelligent	.11	.68
McCain Optimistic	-.07	.57
Eigenvalue	3.07	3.00

Table 4. Spatial Logit Models for USA 2008^a

Variable	(1) Spatial	(2) Sp. & Traits	(3) Sp. & Dem.	(4) Full
McCain valence λ	-0.84*** (7.6)	-1.08*** (8.3)	-2.60** (2.8)	-3.58*** (3.4)
Spatial β	0.85*** (14.1)	0.78*** (10.1)	0.86*** (12.3)	0.83*** (10.3)
McCain traits		1.30*** (7.6)		1.36*** (7.15)
Obama traits		-1.02*** (6.8)		-1.16*** (6.44)
Age			-0.01 (1.0)	-0.01 (1.0)
Gender (F)			0.29 (1.26)	0.44 (0.26)
African American			-4.16*** (3.78)	-3.79*** (3.08)
Hispanic			-0.55 (1.34)	-0.23 (0.51)
Education			0.15* (2.5)	0.22*** (3.66)
Income			0.03 (1.5)	0.01 (0.50)
Working Class			-0.54* (2.25)	-0.70** (2.59)
South			0.36 (1.5)	-0.02 (0.07)
Observations	788			
log likelihood (LL)	-299	-243	-250	-207
AIC	601	494	521	438
BIC	611	513	567	494

^a Baseline Obama* $prob < 0.05$, ** $prob < 0.01$, *** $prob < 0.001$.

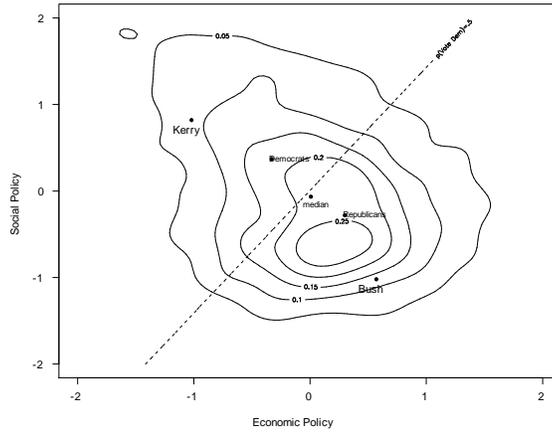


Figure 1: Electoral distribution and candidate positions in the United States in 2004

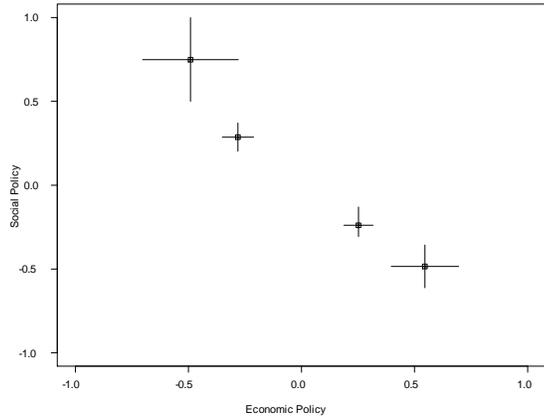


Figure 2: Activist and voter means for the two parties in 2004: Democrats upper left, Republicans lower right.

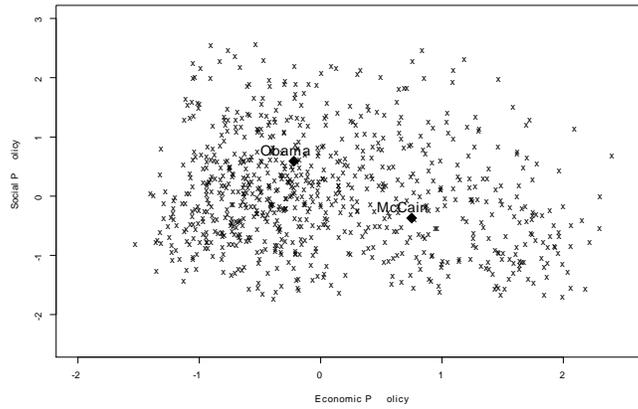


Figure 3: Distribution of voter ideal points and candidate position in 2008

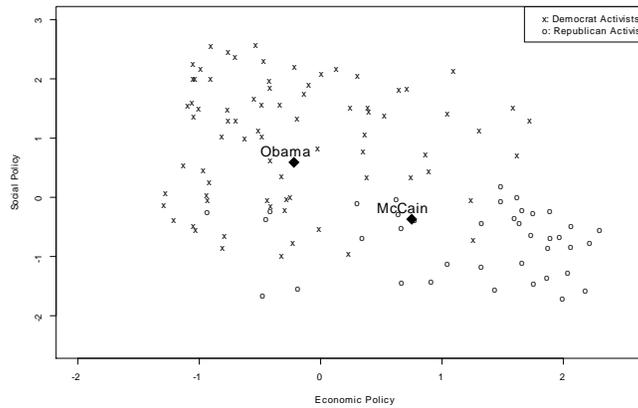


Figure 4: Estimated US Presidential candidate positions in 2008 and activist positions by party

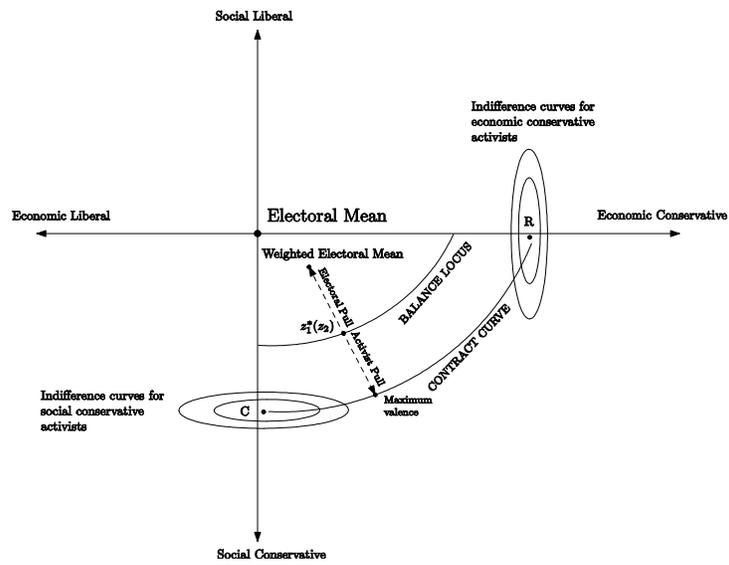


Figure 5: Optimal Republican position

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