CBR BRIEFING #69

US voters’ risk aversion can swing elections

➜ The US stock market has done much better under Democratic presidents than Republicans.

➜ Chicago Booth’s Lubos Pastor and Pietro Veronesi argue that Democrats tend to take power during economic crises, when voters want a stronger social safety net, while Republicans assume office during prosperous times, when voters feel bolder and favor the party’s lower-tax policies.

➜ The researchers create a model in which both stock returns and elections are determined by people’s aversion to risk. People tend to be more risk averse during crises, leading to more Democratic votes and higher stock returns. But risk aversion falls as the economy gets stronger, resulting in more Republican votes and lower returns.


Average market returns by US presidents’ terms
Percentage per year in excess of the 3-month Treasury bill rate

-25% 0% +25%


Democrats’ average

-0.2%

Republicans’ average

+10.7%