

The Battle for the House of Representatives: how clustering raises the hurdle for Democrats

Thankfully, this election is almost over¹. The answer to some questions we’re getting on the outcome (healthcare, infrastructure, tax repatriation) hinge on whether Democrats retake control of the House in a “wave election”. Wave elections can be defined as those where one party gains the White House, at least one Senate seat and at least 20 House seats. Based on certain (but not all) polls, this looks increasingly likely. The sample size is small and there are always other factors involved, but 6 wave elections since 1932 resulted in modestly negative equity market returns 3-months after the event. In contrast, markets rallied 3 months after non-wave elections. However, **US Presidential elections were not a big deal either way**: equity market losses 3 months after wave elections were small (-4%), and equity markets were positive after both wave and non-wave elections 12 months after the event.

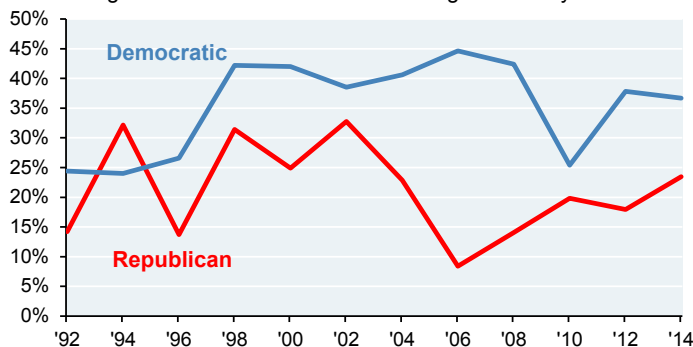
Consensus projections assume that the GOP retains control of the House, and if so, **clustering may help explain why**. Clustering refers to people gravitating to communities which share common values and other lifestyle attributes. A Stanford/Princeton study found that neighborhoods are becoming more politically homogeneous, that parents express greater displeasure with offspring marrying across party lines, and that marital selection has become based more on political partisanship than on physical attractiveness or personality. While **gerrymandering** is often mentioned as an issue affecting the balance in the House, political scientists at the University of Michigan and Stanford estimate that gerrymandering only costs Democrats 6-8 Representatives (See “Don’t Blame the Maps” in sources).

To start, we looked at the incidence of **landslide elections** in the House of Representatives. We define a landslide as the winning party in a Congressional district having a margin of victory of at least 45% (i.e., 72.5% to 27.5%, a complete trouncing). Here’s what we found:

- The first chart shows the % of House seats won in landslide elections by each party. For example, from **one third to almost one half of all Democratic Party seats were won in landslide elections** from 1998 to 2014. Landslide GOP elections were significant, but fewer in number.
- If Democrats are winning so many elections by a landslide, does that correspond to an environment of greater dominance in the House by the Democratic Party? Not at all; the second chart shows the overall balance in the House, and more often than not, Democratic landslides took place within the broader context of GOP control of the House (the major exception being the wave election of 2008).
- Here’s our first clue about clustering: Democrats are more likely to vote in elections with one-sided victories than Republicans, but **these victories suggest an intensification of the Democratic Party within certain geographical areas rather than a broadening geographical presence**.

Democrats won more landslide House elections...

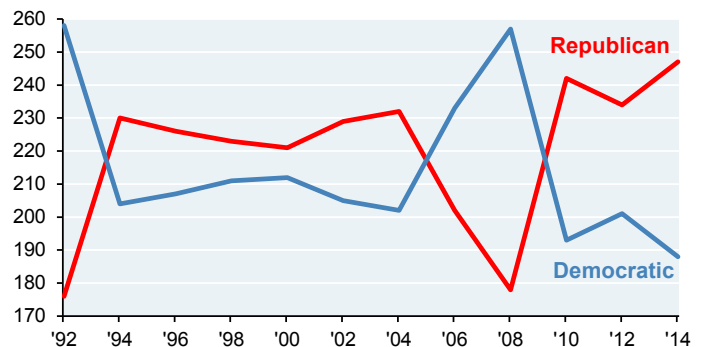
% of congressional districts won where margin of victory > 45%



Source: Dave Leip’s Atlas of US Elections, JPMAM calculations. 2014.

...but Republicans usually controlled the House anyway

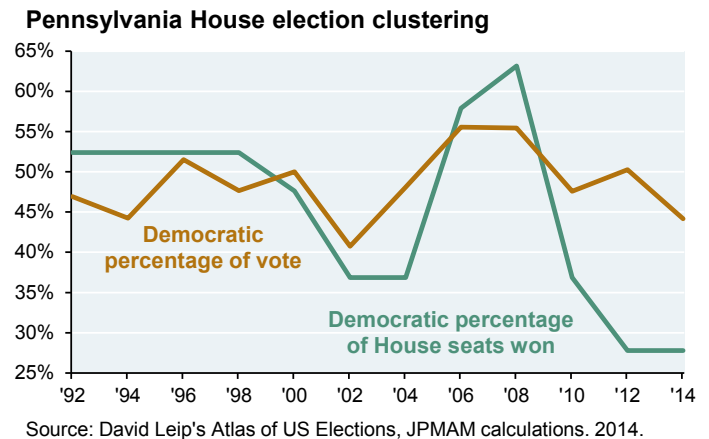
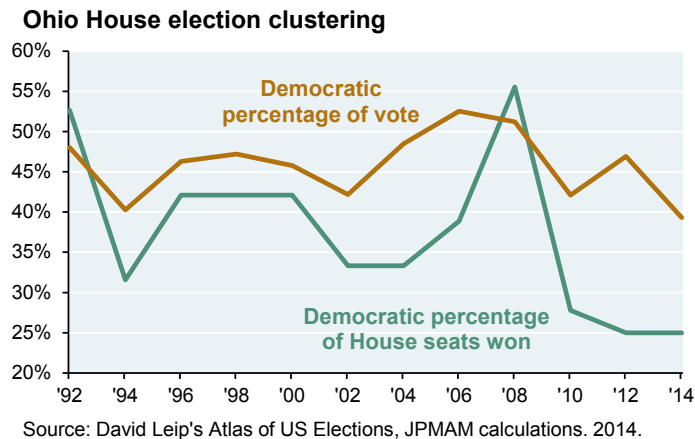
of seats



Source: Dave Leip’s Atlas of US Elections, JPMAM calculations. 2014.

¹ So far, my favorite poster of the 2016 Presidential election is one I saw hoisted a couple of days ago: “**Keep the Federal Government out of My Medicare!**” A perfect metaphor in so many ways.

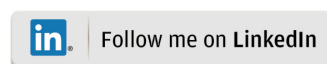
When we look at the details by state, **that's exactly the kind of clustering** we see in some Eastern and Midwestern states. Democratic voters appear to be increasingly concentrated in urban centers and college towns, leading to large vote totals that are not accompanied by more House seats. The next 2 charts show examples of Ohio and Pennsylvania, where Democratic vote totals ranged from 40%-50% in the last 20 years, but where the **percentage of House seats won** by Democrats have been falling. The results for North Carolina, Michigan, Indiana and Virginia look similar. Across the six states mentioned, from 2012-2014, Democrats won 45% of House votes but only 27% of House seats.



The bottom line: clustering may make the Democratic Party's path to a House majority more difficult to achieve, since higher margins in urban centers with pre-existing Democratic majorities don't necessarily translate into more House seats². If so, it could explain why current polling points to a wave election that falls short of the GOP losing control of the House. If the GOP does lose the House despite the clustering dynamics described above, it would speak volumes regarding the broad appeal of the party's nominee, and the impact of intense infighting inside the GOP itself. Given animosities on both sides³, maybe another round of divided government where each side walks away with something would not be such a bad thing.

Please join me on November 10th for a post-election discussion on the consequences for financial markets. Invitations to follow from your coverage teams.

Michael Cembalest
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To reiterate, the information presented herein is in no way intended to be making value judgments on the preferred outcome of any political election

² As a reminder, a Census is taken every 10 years after which Congressional districts are redrawn in an effort to have representation track shifts in population. Some people propose proportional representation as an alternative to Congressional districting for House seats. However, the perpetuation of the Electoral College indicates a strong American bias against proportional representation.

³ I remember my own family being fractured in 1972, split between Nixon and McGovern supporters. My father decided to seat some of his political opponent-relatives with me at the **children's table** at several holiday meals, something which has not been forgotten 40 years later. However, I don't remember the vitriol being as bad as it is today. My uncles spent the evening trying to explain Nixon's positive qualities to me while I played with the dog.

Sources:

"*Fear and Loathing across Party Lines: New Evidence on Group Polarization*", Iyengar (Stanford) and Westwood (Princeton), 2014.

"*Don't Blame the Maps*", Chen (U Michigan) and Rodden (Stanford), New York Times, Jan 24, 2014.

Wave election equity market results from Goldman Sachs US Weekly Kickstart, October 14, 2016.

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