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Stock Ownership, Political Beliefs, and Party Identification from the "Ownership Society" to the Financial Meltdown

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Abstract

In this paper we investigate the link between stock ownership, political beliefs, and party identification. Stock ownership significantly increased the likelihood of voters identifying with the Republican Party between 2000 and 2004 -- a period when that party offered tax cuts and proposed an overhaul of Social Security which directly appealed to shareholders. Yet in the period leading up to the 2008 election, the financial crisis cast doubt on the idea that a Republican administration would best represent stockholder interests. We find that while there was a small backlash, stockholders largely remained committed to the party in high numbers. But these effects vary depending on the ideological orientation of stockholders: In 2004, those stockowners with the most ideologically conflicted views were most receptive to recruitment by the Republican Party, and stock ownership continued to increase Republicanism among those in 2008 who were more ideologically liberal on economic issues. These results suggest that party identification may be less about pure economic interests than about identity, especially for those whose ideological beliefs do not map cleanly onto the liberal/conservative continuum, and that psychological mechanisms such as cognitive dissonance and identity conflict are important drivers of political behavior.

KEYWORDS: stock ownership, political identification, cognitive dissonance, identity conflict

JEL Classification Codes: D72, Z13, P16

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Introduction

The link between property ownership and perceptions of political interest is virtually axiomatic. In the *Federalist #10*, James Madison, one of the “founding fathers” of the U.S. Constitution and fourth U.S. President, wrote of the merits of a large republican state. In Madison’s view, a representative government would not become a tyranny of the majority because the diversity of political interests in the population would lead to bargaining, compromise, and ultimately wise legislative action. Key to his understanding of political interest was an emphasis on property. He argued that no single majority could monopolize a republican state because “[f]rom the possession of different degrees and kinds of property ... and ... the influence of these on the sentiments and views of the respective proprietors, ensues a division of society into different interests and parties.”¹ Different forms of property led to varied political interests--landed interests for farmers, mercantile interests for traders, manufacturing interests for factory owners, and monied interests for bankers--which led naturally to political attitudes and actions that reflected class divisions. That the legislative branch of the then-proposed U.S. Federal state would come to represent a varied spectrum of property interests reflected a strength, Madison argued.

Since the early 1980s, the U.S. has seen a sea change in the nature of property ownership, as the proportion of families owning stock increased from one in five to over one-half by the turn of the 21st century.² While disparity of income and wealth in the U.S. remains large (Davis and Cobb, 2010), many Americans now share common property interests as shareholders. Moreover, due to the advent of the 401(k) pension plan and the increased availability of low-cost retail investing, stock is overwhelmingly owned through intermediaries. Few Americans buy stocks directly; most invest in the broader market via mutual funds. At the same time, access to information about how the market is doing at any given moment is pervasive, from the stock ticker on the CNN screen in malls and airports, to the display at the customer service desk at Whole Foods, to the preloaded iPhone stock-market app. If Madison is right, then we might expect that changes in property ownership, coupled with increased access to quantitative information about one’s “interests,” would have political consequences.

This change has not gone unnoticed by the political parties and pundits. During the late 1990s, as commentators observed the rapidly increasing prevalence of stock ownership in the US, a handful of writers and activists publishing in the *National Review*, the Cato Institute’s *Policy Analysis*, *American*

¹ <http://www.constitution.org/fed/federa10.htm>

² Ownership statistics from the Federal Reserve Board’s Survey of Consumer Finances (various years)

Enterprise, the *American Spectator*, and similar venues found evidence for a correlation between stock ownership and political sentiments, even at relatively low levels of market participation. Richard Nadler (1999), in an article entitled “The Rise of Worker Capitalism,” reported that free-market policies such as capital gains tax cuts were popular among shareholders compared to non-shareholders independent of income, age, sex, race, and party affiliation. By the time of the 2000 election Nadler asserted, based on opinion polls, that “mass ownership of financial assets has midwived a new birth of free-market opinion,” and that the longer individuals were enrolled in a 401(k) plan, the more likely they were to identify as Republican. He argued that shareholding was a causal variable in this relationship through its effect on the kind of information shareholders attend to, and lamented that “It is this educating tendency of capital ownership that the GOP has been slow to grasp...The party has to actively recruit investor members—but it is failing abysmally in this task.”

In subsequent years, however, the Republican Party—led by the administration of George W. Bush—took the investor class model to heart. In 2003, Bush signed reductions in the capital gains tax and the dividend tax—policies that appealed explicitly to stock investors but drew little attention from non-stockholders—and during the 2004 presidential election campaign, he began to promulgate an “ownership society,” with the privatization of Social Security as the centerpiece. Although putatively an effort to reform Social Security and to forestall shortfalls in decades ahead, analyses suggested that the transition to private plans would be phenomenally costly in the short run. But it had two potential electoral benefits that were recognized by its proponents on the right. First, current shareholders favored the idea, as they did other shareholder-oriented policies such as capital gains tax cuts, and shareholders were substantially more likely than non-shareholders to vote in elections. Second, “Social Security reform is the key goal of an investor-class politics, since it would bring almost the entire population into the class” (Ponnuru, 2004). Thus, according to Grover Norquist, privatizing Social Security would make the Republican Party “a true and permanent national majority” by creating a vast group of shareholder-Republicans (*Wall Street Journal*, 1/28/05).

In this paper, we analyze the link between stock ownership, political beliefs, and party identification using large-scale survey data from the American National Election Studies from 1998 to 2008. As we have documented previously, efforts by the Republican Party early in the decade to recruit members of the “investor class” were evidently successful, as the proportion of stockholders identifying as Republican increased from 30% to 40% from 2000 to 2004 (Davis and Cotton, 2007). But while the 2004 election seemed to vindicate the investor class theory, it also left some ambiguities. The market had been on an 18-month positive trajectory just prior to that election, giving shareholder-

voters a ready rationale for voting Republican. By contrast, the period leading up to the 2008 election had been catastrophic for the stock market, and for the broader global economy.

By the end of George W. Bush's second term, shareholders had some reasons to doubt the ability of the Republican Party to manage the economy in their interests: investors who had put \$10,000 into an S&P 500 fund the day Bush took office would have been \$4,000 poorer the day he returned home to Texas, and the market had fallen by over one-third during the eighteen months leading up to the 2008 election (see Figure 1). Did stockholders vote their pocketbooks in 2008 (that is, to oust Republicans), or did their newfound Republicanism grow roots? On the one hand, rational and footloose investors might look on the economy's poor performance as a reflection on the governing party, deciding to withdraw allegiance as easily as it was given. On the other hand, given the severity of the financial meltdown, theory in psychology would predict the reverse reaction. In a classic example of cognitive dissonance, members of a doomsday cult were presented with a harsh challenge to their beliefs when their prophecy did not come true (Festinger et al., 1956). Rather than give up their beliefs, their commitment only increased. Did shocked stockholders similarly renew and strengthen their commitment to the Republican Party after the meltdown? Data available for the most recent U.S. presidential election allow us to address this question, and begin to draw out the deeper implications of ownership changes for American politics.

Economic Interests and Political Identification

Political scientists have examined the link between economic interests and voting for decades. One of the most intriguing questions concerns the mechanism linking individual economic well-being, the health of the economy, and political partisanship. In the simplest case, voters examine their own situation and then vote their pocketbook--say, voting against incumbents if they have lost their job, or in favor of candidates promising their group tax cuts. Yet Donald Kinder and his collaborators find that this simple model of "pocketbook voting" does not hold up well empirically. Rather, Kinder finds that voters tend to be guided by how the overall economy is doing, a process labeled "sociotropic voting" (Kinder and Kiewiet, 1981). Subsequent refinements to this model have factored in how political sophistication moderates this process: well-informed voters tend to be pocketbook voters, while less-informed voters tend to vote sociotropically (Gomez and Wilson, 2001).

In prior work, we have described how activists on the political right in the US put forth a theory of the "investor class" positing that stock ownership leads

individuals to adopt more free-market-oriented political attitudes, to attend to different sources of news, and to become more reflexively Republican (Davis and Cotton, 2007). Indeed, one of the stated rationales behind the proposed partial privatization of Social Security (the state-run retirement pension program in the US) was that getting more voters invested in the stock market would convert them into Republicans. Although the theory sounded far-fetched to some, our analysis of time-series data indicated substantial support for the investor class theory. Those who owned stock in 2000 were more likely to become Republican in 2004 than those who did not. But the mechanism behind this shift was ambiguous: although shareholders identified as Republican at a high rate, their actual political ideology did not become more conservative.

Table 1 compares non-shareholders and shareholders on a set of attitudinal questions and voting in the presidential election for the 2004 panel. Notably, there are no significant differences on a number of political questions presumed to be influenced by stock ownership, according to proponents of the investor class model. Shareholders were just as likely as non-shareholders to agree that government is run by a few big interests, and that the gap between rich and poor has grown in the past 20 years. Perhaps more surprisingly, shareholders also supported government intervention to discourage big companies from outsourcing (“hiring workers in foreign countries to replace workers in the U.S.”), and were overwhelmingly opposed to school vouchers (“having the government give parents in low-income families money to help pay for their children to attend a private or religious school instead of their local public school”). Shareholders, in short, were not dogmatic devotees of free market policies by any means, and were largely indistinguishable from non-shareholders on a range of attitudinal issues. But on policies explicitly targeted to shareholder interests—tax cuts and privatization of Social Security—shareholders were substantially more favorable to Bush than non-shareholders. They were more positive about Bush’s handling of his job in general by 10 percentage points compared to non-shareholders, and on his handling of the economy they were 17 points higher.

One interpretation of this pattern is that shareholders are not particularly more ideological than non-shareholders; they are simply pocketbook voters who responded to the inducements offered by the Republican Party. The Bush Administration’s tax cuts on dividends and capital gains in 2003, and the campaign promise to partially privatize Social Security, were explicitly aimed at the investor class. Moreover, they had financial consequences readily visible to shareholder-voters who could make the link between policy announcements and market reactions. A price change in the stock market provides a kind of boundary object, objectively available to any that behold it, providing a precise minute-by-minute readout of one’s economic well-being. In addition, to the extent that the stock market is a good indicator of the health of the overall economy, then

“voting the market” unites both pocketbook and sociotropic measures: what’s good for the Dow is good for America, and good for me.

While it might seem inconsistent for a stockholder to maintain liberal opinions while joining the conservative Republican party for pocketbook reasons, recent work by Baldassarri and Goldberg (2010) reveals that many individuals hold opinions and choose political affiliation in ways at odds with the dominant liberal-conservative polarity. In an analysis of voter opinion over the past two decades, Baldassarri and Goldberg found three stable groups with distinct belief structures: Some voters, dubbed Ideologues, have opinions which conform to the liberal-conservative spectrum. That is, their opinions on moral issues are equally as liberal/conservative as their opinions on economic issues, and these are equally liberal/conservative as their opinions on civil rights issues. For these individuals, since their opinions on a variety of issues “match”, it makes sense to consider them as “liberal” or “conservative” for their overall political orientation.

However, another group of voters, dubbed Alternatives, have opinions which diverge: They consider moral and civil rights issues differently from economic issues, such that their opinions in one domain may be consistently liberal, while their opinions in the other may be consistently conservative, or vice versa. For these voters, there is identity conflict, generated by beliefs, demographics and interests which draw them towards both the Republican and Democratic parties. And finally, a third group of voters, Agnostics, have a hodgepodge of opinions which combine both liberal and conservative stances within each domain of morality, civil rights, and economic issues. In finding that Alternatives join the Republican Party at higher rates than the Democratic Party, Baldassarri and Goldberg speculated that the Republicans may be a more ideologically diverse group, and therefore more welcoming to those with disparate opinions.

Baldassarri and Goldberg’s analysis challenges the widely-held assumption that ideology spans a coherent liberal-conservative spectrum. For many people, combining both liberal and conservative opinions is possible, although this seemingly “incoherent” belief structure means that neither the Republican nor Democratic parties fully represents their opinions. This new perspective on political orientation may help explain how asset ownership and other factors reflecting class and social position can lead to joining one party or other without a shift in the person’s ideological stance. In other words, political party membership is more than agreeing with the “party line.” Membership is influenced by individuals’ social identities and economic interests, with the result that many Americans identify with parties whose agendas are at least partly at odds with some of their own personal beliefs. A person who has liberal opinions on economic issues may be encouraged to join the Republican party by virtue of stock ownership, but may not adopt free market opinions. Indeed, this person has

conflicting attachments to both parties, even though he or she has chosen one party as best representing his or her interests.

We speculate, however, that Americans who hold conflicting attachments to both parties experience an identity tension which makes choosing either party a more difficult, effortful, and calculated choice than those who are Ideologues. Ideologues experience a confluence of social identity,³ economic interests, and ideological opinions which make political identification a more straightforward matter by comparison: they know where they are on the liberal/conservative spectrum. For an Alternative, however, the “mismatch” between liberal and conservative opinions in different domains means having to consider a variety of factors in choosing a party: Which issues are most important to me? Which of my social identities should dominate? Which of my economic interests do I want my vote to support? Like a dual citizen of two warring countries, choosing one side or the other comes at a cost.

Because of this, we suspect, Alternatives are especially on the lookout for information which assists them in evaluating which party is a better “fit” for them, and thus are most influenced by recruitment efforts. The tension that Alternatives experience may make them more conscious of and sensitive to personal changes - such as becoming a stockholder - which alter their fit with either party. As a result, the Republican Party’s efforts to recruit the investor class prior to the 2004 election may have been especially successful among Alternatives, who already had some other attachment to the Republican Party.

These speculations open up new questions: after the financial meltdown, did the conflicting allegiances of Alternative stockholders make it easier for them to abandon the Republican Party, the governing party during the meltdown? On the one hand, the liberal views of Alternatives (whether economic or moral) could have made switching to the Democratic Party easier and more palatable, despite having chosen to identify as Republican before the financial crisis. On the other hand, the well known social psychology theory of cognitive dissonance (Festinger, 1957) would predict otherwise. In cognitive dissonance theory, when people come to hold two or more conflicting cognitions (thoughts, attitudes, perceptions, etc), this causes distress, which results in attempts to reduce the dissonance (Brehm and Cohen, 1962). Cognitive dissonance can be reduced by modifying one’s cognitions and/or behavior, in order to reinforce or make more consonant prior beliefs, or to change those beliefs. For example, in the classic case of cognitive dissonance, members of a doomsday cult came to realize that A) their religious beliefs predicted the end of the world, but B) the world had not

³ Baldassarri and Goldberg highlight that income and religiosity are particularly important among sociodemographic factors. Those who are high earners with high religiosity -- or low earners with lower religiosity -- are more likely to be Ideologues, having aligned conservative or liberal opinions.

ended. The dissonance they experienced brought them to rationalize why the world had not ended, and become even more fervent believers, thus making their beliefs consistent and stronger.

Cognitive dissonance theory has been applied in many domains, including economic action (e.g. worker's evaluations of occupational hazards (Akerlof and Dickens, 1982)) and political action (e.g. voter's evaluations of candidates (Beasley and Joslyn, 2001)). A key finding in the literature is that when a person is presented with a difficult choice to be made with free will (no coercion), that choice is more likely to give rise to cognitive dissonance and thus to attempts to reduce that dissonance (Cooper and Fazio, 1984). Thus, as compared to those who had a clear favorite prior to an election, voters who had favorable evaluations of both candidates, and thus had a harder time deciding for whom to vote, were more likely *after* voting to evaluate their chosen candidate more highly than the other candidate (Beasley and Joslyn, 2001). By changing their beliefs about the relative merits of the candidates, they avoided holding two dissonant cognitions: that the candidates were similar, but that they chose one over the other. In other words, because these voters faced a difficult decision, they became more committed to their final choice. Similarly, Mullainathan and Washington (2009) present evidence that the act of voting for a candidate increases the voter's opinion of that candidate well into the future. As a result, we might expect that stockholding Alternatives who chose to identify as Republican in 2004 in response to the Republican Party's active recruitment of investors would not so easily abandon the party in 2008. Rather than see their interests as being hurt by the Republican administration, the higher degree of cognitive dissonance they experienced from their more considered and effortful choice of political allegiance would lead them to become even more certain that the party represents their interests post-financial meltdown.

Data

We use survey data from the American National Election Survey (ANES), which is a biannual survey of voter opinion. Starting in 1998, the survey included a question on stock ownership: "Do you personally or jointly with a spouse, have any money invested in the stock market right now -- either in an individual stock or in a mutual fund?" This allows us to measure the effects of shareholding in general on political attitudes and voting behavior. While the amount of stock ownership in dollar terms would be ideal, the ANES data contain simply a Yes/No answer describing whether the respondent owned any stock at that time. Although it provides a crude indicator of stock ownership, the ANES is the best available resource for examining the link between stock ownership and politics

over time. In 1998, 2000, 2002, 2004, and 2008 (a full field survey was not undertaken in 2006), surveys contained variables on demographics, political identification, and stock ownership. We use data from those ANES surveys for our initial models assessing change in the role of stock ownership on political identification over time. However, only the 2000, 2004, and 2008 surveys contained opinion variables on moral and economic issues necessary for assessment of Alternative belief structures, as described below. Thus, our analysis of the role of political beliefs includes these three years only; each of these years were national presidential election years. For all ANES data, annual cross-section samples include over 1000 individuals across the US, with surveys initiated via in-person interviews, and survey responses are weighted to reflect response biases. Descriptive statistics for the variables described below are included in Tables 2-4, for 2000, 2004, and 2008.

Variables

Republican (Dependent Variable): Indicator variable coded 1 for those who answer “Republican” to the question “Generally speaking, do you usually think of yourself as a Republican, a Democrat, an Independent, or what?”

Stockowner: Indicator variable coded 1 if the respondent has any money invested in the stock market, either through individual stocks or through mutual funds

High Income: Indicator variable coded 1 for those in the top quartile of income reported by respondents. For 1998, the top quartile included those with \$35,000 and higher personal incomes. For 2000, 2004, and 2008, this threshold was \$50,000, \$50,000, and \$45,000, respectively. In 2002, the top quartile was \$85,000 or higher of household income (personal income was not measured).

High Education: Indicator variable coded 1 for those with a bachelor’s degree or higher

Homeowner: Indicator variable coded 1 for respondents who report owning their home

Black: Indicator variable coded 1 for respondents who were African-American

Worse Off: Scale measuring how financially well off the respondent feels compared to the year prior, with higher numbers indicating poorer financial condition. 1 = Much better; 2= Somewhat better; 3= The same; 4 = Somewhat worse; 5 = Much worse

Alternativeness: Continuous variable ranging from 0 to 1, measuring the difference between the respondent's moral and economic opinions. Alternativeness = $\text{abs}(\text{Moral Position} - \text{Economic Position})$.

*Moral Position:*⁴ The average of the respondent's answers to eight opinion questions paraphrased below. Since scales varied (from 4 point scales to 7 point scales), they were rescaled to a 0-1 range for comparability, recoding if necessary to make conservative answers at the high end of the scale.

- Should women have an equal role in society? (0=Strongly feel that men and women should have equal roles; 1=Strongly feel that a woman's place is in the home)
- Do new lifestyles contribute to the breakdown of society? (0=Disagree strongly; 1=Agree strongly)
- Should adjust our view of moral behavior to changing times? (0=Disagree strongly; 1=Agree strongly)
- Does society need more emphasis on traditional values? (0=Disagree strongly; 1=Agree strongly)
- Should be tolerant of those with different moral standards? (0=Agree strongly; 1=Disagree strongly)
- Legal protections for homosexuals against job discrimination? (0=Strongly favor; 1=Strongly disapprove)
- Allow gays to serve in military? (0=Strongly think that homosexuals should be allowed to serve; 1=Strongly think that homosexuals should not be allowed to serve)
- When should abortion be permitted? (0=By law, a woman should always be able to obtain an abortion as a matter of personal choice; 1=By law, abortion should never be permitted)

Economic Position: The average of the respondent's answers to eight opinion questions paraphrased below. Since scales varied (from 3 point scales to 5 point scales), they were rescaled to a 0-1 range for comparability, recoding if necessary to make conservative answers at the high end of the scale.

- Support government health insurance? (0=Strongly feel that there should be a government insurance plan; 1=Strongly feel that individuals should pay through individual insurance)
- Should government guarantee jobs? (0=Strongly feel the government should see to it that every person has a job and a good standard of living;

⁴ The results in Baldassarri and Goldberg (2010) reveal that these moral and economic questions best differentiate between Ideologues and Alternatives.

1=Strongly feel that the government should just let each person get ahead on their own)

- Opinion on federal spending in general? (0=Increase federal spending and services a great deal; 1=Reduce federal spending and services a great deal)
- Opinion on federal spending on aid to poor people? (0=Increase; 1=Decrease)
- Opinion on federal spending on childcare? (0=Increase; 1=Decrease)
- Opinion on federal spending on public schools? (0=Increase; 1=Decrease)
- Opinion on federal spending on welfare? (0=Increase; 1=Decrease)
- Opinion on federal spending on social security? (0=Increase; 1=Decrease)

Categorization into Belief Groups:

- Conservative Ideologue = Moral Position > 0.5 & Economic Position > 0.5
- Liberal Ideologue = Moral Position < 0.5 & Economic Position < 0.5
- Morally Conservative Alternative = Moral Position > 0.5 & Economic Position < 0.5
- Economically Conservative Alternative = Moral Position < 0.5 & Economic Position > 0.5

Analysis & Results

To understand the relationship between political identities, political beliefs, and shareholding, we take several analytical steps. First, we utilize the full set of five cross-sectional studies from 1998 - 2008 to test whether stockholding influences identifying as Republican and how this has changed over time. Next, we restrict the analysis to the 2000, 2004, and 2008 datasets, which are the only ones to provide complete political belief data, to assess how the difference between one's moral and economic opinions ("alternativeness") moderates the role of economic interest on Republican identification. Finally, again using the 2000, 2004, and 2008 datasets, we conduct split-sample analysis, where for each distinct political belief group, we assess the role of stockownership on Republicanism. For each stage of this analysis, we model whether or not the respondent identifies as Republican, and so use logistic regression, which is appropriate for dichotomous dependent variables.

Results paint a complex picture of the relationship between economic interests and political behavior. Across the past decade, shareholders have been much more likely than non-shareholders to identify as Republican, but only in the

period 2002-2004 did the number of Republican shareholders increase substantially more quickly than the number of Republican non-shareholders (see Figure 2). In other words, the Republican Party's targeted efforts to recruit the investor class worked dramatically for a two year period, but then came to a standstill. Between 2004 and 2008, the change in party identification among shareholders reflected the broader population: across the board, Republicans decreased a bit, but not by much. Given the financial implosion and stock market losses, this is surprising, since from a pocketbook perspective, one might have expected a greater backlash against the incumbent Republican Party among stockholders.

On closer inspection, 2008 brought a small backlash amongst stockholders. In logistic regressions modeling Republican identification (Table 5), the magnitude of the stockholder effect diminished: whereas in 2004, stockholders were 138% more likely to be Republican than non-stockholders, in 2008 stockholders were only about 84% more likely than non-stockholders to identify as Republican. That is, controlling for several demographic characteristics, including income, education, homeownership, race, and the respondent's perceived economic situation,⁵ stockholders still overwhelmingly chose the Republican Party, just as they did in prior years. From 1998 through 2002 the effect of stockownership remained at roughly a 30-50% increase in Republican identification. So, while the 2008 results indicate a small backlash compared to four years prior, seen in the context of the past decade, stockholders in 2008 still chose the Republican Party in extraordinary numbers.

By contrast, voters in general demonstrated a pocketbook reaction to recent events. In 2008, those who perceived themselves to be more worse off economically as compared to the prior year were considerably less likely to identify as Republican. Demonstrating that pocketbook effects are a meaningful influence on political identification, the Worse Off variable is significant in every model: During and at the end of the Democratic administration (1998 - 2000), those who felt worse off were more likely to choose the Republican Party, while during and at the end of the Republican administration (2002 - 2008), those who felt worse off were less likely to choose the Republican Party.

Although voters across both parties were a tad more forgiving in 2008 as compared to 2004, they still penalized the party in power to a significant degree if they felt worse off under their administration. However, stockholders as a group remained considerably more likely to favor the Republican party in 2008, even though their economic interests were worse off. Why didn't they penalize the Republican Party more? If anything, we might conclude that investor attachment to the party stabilized at high levels post financial meltdown. While this may

⁵ Gender and age were also tested, but were non-significant in models and had no effect on other results.

seem like an irrational response, it might make sense in light of the active recruitment efforts towards these investors. Given the press received by the investor class theory and the projected pro-investor stance of the Republican Party, the financial meltdown may have been such a jarring event that it triggered cognitive dissonance. As investors sought to make sense of the financial implosion and its consequences, their previous belief in the skill of the Republican Party at managing the economy was challenged. To avoid such cognitive dissonance, stockholders' beliefs in the economic skill of the Republicans may have been bolstered, rather than diminished. Like members of a cult whose prophecy has not come true, their beliefs were intensified.

Not all stockholders are the same, however. Refining our analysis, we consider the degree to which voters are Alternatives, holding conflicting liberal and conservative opinions. As described above, those voters who experience ideological ties to both parties may be more sensitive to the boundaries between the parties and their recruiting efforts. And, since stockholders who have conflicted political allegiances may have been the most sensitive to recruiting efforts among stockholders, they may also have been most likely to experience cognitive dissonance after the economy's difficulties.

Assessing "alternativeness" as the difference between the conservativeness of the respondent's moral opinions and the conservativeness of the respondent's opinions on economic issues, we perform the analysis on the three years for which complete opinion data is available. Table 6 shows the results of logistic regressions which add the continuous variable alternativeness and an interaction term between alternativeness and stockownership. For 2004, at the recruiting stage, the models show that there is a clear effect of alternativeness: voters who were more conflicted in their moral-economic opinions, combining liberal and conservative orientations, were much more likely to identify as Republican. The significant interaction term indicates that stockholders with such conflicted opinions were even more likely to do so. Consider a voter whose level of alternativeness was one standard deviation above the mean in 2004. Owning stock would have increased that voter's probability of identifying as Republican by a whopping 444% compared to a voter with the same level of identity conflict who did not own stock. Surprisingly, however, the effect of alternativeness and the interaction with stockownership goes away in 2008.

What happened in 2008? If Alternative stockholders were more sensitive to recruiting efforts, why wouldn't their response in 2008 also be different than Ideologue stockholders? To understand the dynamic between political identification, stockownership and belief structures more concretely, we explore differences within each of the Alternative and Ideologue groups. Recall that Ideologues span the spectrum of liberal to conservative orientations. Alternatives are also a mixed group: voters with conflicting orientations may have opinions

which lean liberal on moral issues but conservative on economic issues, or they may lean conservative on moral issues but liberal on economic issues. While the Alternative/Ideologue distinction is helpful for initial analysis, exploring the full range (Figure 3) of combinations of opinions is illustrative.

Table 7 shows logistic regressions on Republican identification for ANES respondents in 2008, separated into four different groups: Conservative Ideologues, Liberal Ideologues, Economically Conservative Alternatives (moral liberals), and Morally Conservative Alternatives (economic liberals). This split sample analysis for 2008 shows that stock ownership no longer had an effect on Republicanism among those alternatives who were economically conservative. By contrast, owning stock made Morally Conservative Alternatives 127% more likely to identify as Republican in 2008. While the cause of this divergence between the two Alternative groups is not clear, we speculate that Republican stockholders with liberal economic views may have experienced the most cognitive dissonance after the financial crisis: Those who chose to identify as Republican despite having conflicting ideological opinions in the years prior to the crisis may have done so after considerable thought and consideration. Similar to the Morally Conservative Alternatives, Liberal Ideologue stockholders would also have made a more difficult decision to identify as Republican, compared to those who were more economically conservative. The financial fallout then generated dissonance -- after explicitly considering their interests and choosing the Republican Party, events cast a shadow over the perception that the Republican Party would best represent investors. Thus, economically liberal stockholders may have stayed with the party to (unconsciously) avoid recognizing that they made what turned out in hindsight to be an inappropriate decision. Indeed, in 2008, stockownership among Liberal Ideologues remained a significant determinant of Republicanism. A Liberal Ideologue who owned stock was more than twice as likely to identify as Republican than one who did not own stock, reflecting these stockholders' continued commitment to the party (as indicated by the coefficient for stockowner in the liberal ideologue column in Table 7).

By contrast, stockholders (and non-stockholders) with economically conservative views, including both Conservative Ideologues and Economically Conservative Alternatives, may not have had the same qualms about choosing the Republican Party in the pursuit of their economic interests, leading to lessened dissonance after the crisis. Among both of these economically conservative groups, the number of stockholders identifying as Republican fell precipitously, eliminating the gap between stockholders and non-stockholders.

Table 8 puts these results for 2008 in context. Table 8 shows the results of split-sample logistic regression from 2000, 2004, and 2008, illustrating that stockholding has affected Republican identification differently across each of the political belief groups over time. To make these results more tractable and easier

to compare over time, we calculated the predicted probabilities of identifying as Republican among stockowners (using the models from Table 4), holding the demographic variables at their mean values. These predicted probabilities are shown in Figure 4. Note that rather than showing simple mean differences, Figure 4 shows the *net* effect of political beliefs on Republican identification among stockowners, after taking income, education, homeownership, race, and perceived economic wellbeing into account. This figure shows the change in Republican identification among economically conservative groups in 2008 dramatically. While in 2004 the probability of identifying as Republican rose among stockholders in all groups, a shift occurred in 2008. Stockholders left the Republican Party in 2008, but those who were Morally Conservative Alternatives or Liberal Ideologies left to a much lesser degree.

Yet, our interpretation of the two economically liberal groups as having experienced cognitive dissonance is complicated by the fact that these two groups do not actually espouse much confidence in the Republican Party's ability to handle the American economy. Only 12.8% of stockholding Liberal Ideologies in 2008 said that the Republican Party is best at handling the economy, and this number was not statistically different from the number of non-stockholding Liberal Ideologies who held the same opinion. On the other hand, 29.9% of Morally Conservative Alternatives who owned stock thought that the Republican Party was best at handling the economy, while only 16.2% of non-stockholding Morally Conservative Alternatives agreed with that statement, a significantly lower number ($p=0.014$). To put these numbers into perspective, 58.5% of stockholding Conservative Ideologies and 39.5% of stockholding Economically Conservative Alternatives thought that the Republican Party was best for the economy. In other words, stockholding Morally Conservative Alternatives were not terribly convinced at a conscious level that the Republican Party would best represent their economic interests, but they *were* a lot more convinced than their non-stockholding peers.

Respondents' answers to the more general question: "Which party represents your views reasonably well?" showed a similar pattern. Figure 5 displays the percent of each group, among stockholders and non-stockholders, who answered that the Republican Party best represents their views. Low levels of Liberal Ideologies, high levels of Conservative Ideologies, and moderately high levels of Economically Conservative Alternatives chose the Republican Party as best representing their views, which is consistent with expectations. For each of those three groups, stockownership did not make very much difference: using two-tailed tests, p -values are 0.377, 0.137, and 0.905 respectively. However, for the Morally Conservative Alternatives, stockownership made a very large difference; nearly double the number of Morally Conservative Alternatives

who owned stock thought that the Republican Party best represented their views, compared to their non-stockholding peers ($p < 0.001$).

Endogeneity and Selection Effects

Since our analysis is based on a series of cross sectional surveys, we must consider two important issues: endogeneity and selection effects. It is possible that individuals may choose to be stockowners (or not) based on their political affiliation. Those identifying as Republican may be more likely to acquire stock given the party's emphasis on the investor class, while those identifying as Democrat might choose to invest in other assets, given that party's more "working class" image. However, while this may be true for some individuals, most Americans' investor status is instead determined by their employment rather than political affiliation. As noted at the beginning of the paper, over half of Americans are now stockholders, mostly due to the rise of 401k retirement plans in the past couple decades (Davis, 2009). Of those families that had stock in 2004, for example, 80.6% held stock through tax-deferred (retirement) accounts, and by 2007, this percentage rose to 83.9% (Bucks et al, 2009). In addition, the relationship between political identification and stock ownership over the period we study does not support suspicions about endogeneity. Figure 6 plots levels of stock ownership among Americans using two data sources: the American National Election Studies data (note that our data is for 1998, 2000, 2002, 2004 and 2008; points between these years have been interpolated) and the Federal Reserve's Survey of Consumer Finances (data from 1998, 2001, 2004, and 2007), which provides data at the household level. If shareholding were endogenously caused by political identification, there should be a clearer relationship between ownership and Republican identification in Figure 6. Notably, early in the decade, stockownership rose while Republican identification fell – evidence that ownership is driven by other mechanisms, such as institutional factors and employment trends.

A related concern is that perhaps the relationship we find between stockownership and political identification is spurious, caused by other demographic factors which drive both investment in the market and political affiliation. Over the period we study, from the Dot.com bubble to financial meltdown, one might wonder if the investor pool changed significantly: For example, early in the decade the market may have become more democratized, as lower income and less sophisticated investors chose to enter the market to take advantage of the high tech bubble. By comparison, after the financial meltdown, these less sophisticated investors might have left the market in higher numbers, with only more wealthy and sophisticated investors remaining as stockholders.

Wealthier investors would have the financial resources to better weather the downturn, for instance. At the same time, one might wonder if in 2008, those investors who felt the Republican Party had harmed their interests had both ceased to identify as Republican *and* ceased to be stockholders. In other words, in 2008, perhaps those who remained investors were both more wealthy and more staunchly Republican, and thus our finding that stockholders did not penalize the Republican Party in 2008 is to be expected due to selection effects.⁶

To investigate the role of selection effects, we modeled stockownership using our demographic variables (high income, high education, home ownership, race, and economic hardship versus the prior year) from 1998-2008. In results unreported here, we find that while income, education, and homeownership each do increase the odds of owning stock, the magnitude of this influence is relatively stable across the full decade. In fact, from 2004 to 2008, income, education, and homeownership become *less* strong influences for owning stock. We interpret this as indicating that stock ownership as of 2008 was, if anything, more broad and democratized, rather than simply being composed of the wealthy or most sophisticated investors. Consistent with this, the effect of variable “Worse Off”, indicating that the respondent felt his or her personal economic situation had worsened over the prior year, on stock ownership increased in magnitude between 2004 and 2008. In other words, stockholders in 2008 were hurt by the financial crisis – and many did leave the market – but this harm did not cause a wide shift in the demographics of investors. Thus, we consider selection effects on stock ownership to not affect our analysis and conclusions.

Discussion and Conclusion

This paper began with an empirical question: Did shareholders continue to identify as Republicans at a high rate after 2004? The Republican Party made great efforts to recruit this group in the time leading up to the 2004 election, including tax cuts and an effort to privatize Social Security. These efforts no doubt helped contribute to the stock market’s relatively robust performance during that time, giving shareholders a clear economic rationale for swinging Republican. Consistent with prior work, we found that the effect of stock ownership on party identification increased significantly in 2004, showing that stockholders did indeed follow their pocketbooks to the opinion polls. But 2007-2008 was a catastrophe for the stock market, and the Bush years coincided with the worst decade of overall market performance in American history. Moreover, our data suggest that stockholders had largely lost faith in the capacity of the

⁶ We thank a helpful reviewer for making this possibility clear to us.

Republican party to manage the economy. Leading up to the 2008 election, only 31% of stockholders agreed that the Republican party is better at handling the economy, and 34% of stockholders thought that no party is better at handling the economy. Yet our results show that they continued to identify themselves as Republicans at very high rates. Stockholders' commitment to the party did wane compared to the prior election cycle, but was still quite strong compared to earlier in the decade. Why?

We suggest in this paper that party identification may be less about economic interests than about identity, and that stockholding has its effects in part through identity processes. Psychological mechanisms, such as cognitive dissonance, can lead to the reinforcement of one's political identity despite economic factors. This is especially true of those whose ideological beliefs do not map cleanly onto the liberal/conservative continuum, who are "Alternatives" in the language of Baldassarri and Goldberg. Between 2000 and 2004, we found that stockholding Alternatives, because of the conflicts they experienced from their ties to both parties, were most susceptible to recruitment. These voters, whose social and economic positions give rise to conflicting ideological beliefs, must more consciously and effortfully decide among their political options. This makes them both more attentive to the recruitment efforts of the parties, as well as more sensitive to factors, such as stock ownership, which might alter the balance of their "fit" with either party. In other words, we suggest that property ownership not only gives rise to an economic interest, but also to a social "cue" which helps conflicted voters decide which group to belong to. Indeed, most stockholders derive more income from wages than stocks, and have far more of their personal wealth invested in their home than in the equity market (Davis, 2009: 214). While the larger magnitude of their economic interests lie in the labor and housing markets, the fact of their stock ownership is surprisingly influential for their political affinity.

Our results also affirm the heterogeneity of American stockholders, since the effects of the financial crisis on the commitment of stockholders to the Republican Party varied depending on voters' ideological beliefs. We suggest that the mechanism of cognitive dissonance led to the reinforcement of party identification for those whose prior decision to join the Republican Party would have been the more difficult. Our data give partial support to this idea, since stock ownership continued to be significant for party identification in 2008 for those with liberal orientations on economic issues (both Liberal Ideologues and Morally Conservative Alternatives). Counter to our expectations, we find no evidence that stock ownership was significant among those Alternatives with morally liberal views.

The difference between those Alternatives with morally conservative views and those with economically conservative views spurs new questions,

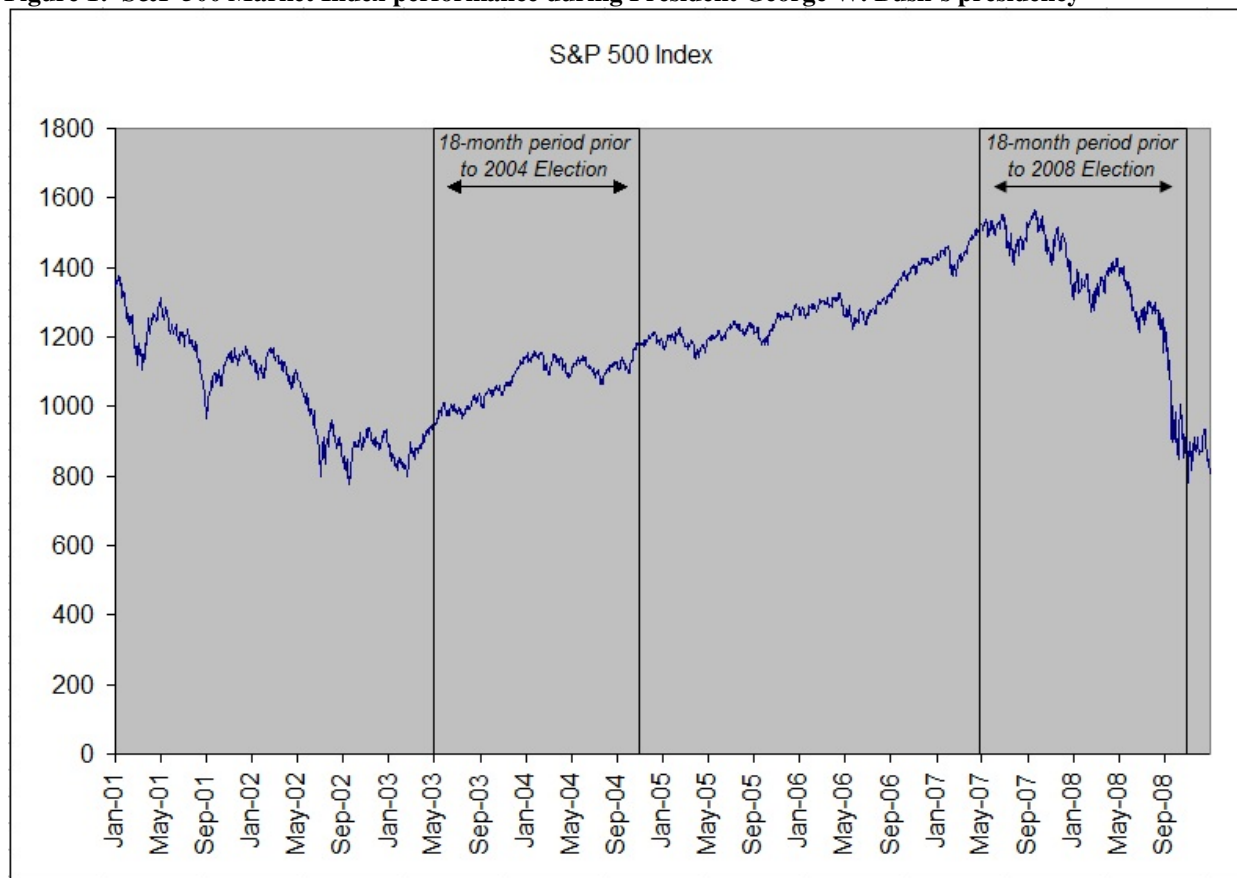
pointing to a research area ripe for additional work. Why would stock ownership so profoundly influence one group's beliefs that the Republican Party best represents their views (Figure 5), but not the other? Political pundits have asserted that moral issues have become more significant in recent U.S. election cycles, but for those whose adherence to the Republican Party is based on conservative moral views, why would property ownership moderate their commitment? We believe that future work should pursue these issues, looking more closely at how psychological mechanisms, such as identity conflict, cognitive dissonance, and other processes, affect different groups of stockholding voters.

One of the limitations of this current study is that stock ownership is somewhat crudely measured via a dummy variable – in the ANES data, respondents are either stockowners or non-stockowners. An outstanding question is whether the extent of stock ownership matters for the psychological processes we highlight here. On the one hand, the size of a stockowner's investment may influence the level of commitment that person feels towards the Republican identity. On the other hand, if political identity is one kind of social identity, as we have argued here, then the amount of stock ownership may not be important. Owning just a small amount of stock may be enough to trigger feelings of belongingness to the Republican Party. Future research could clarify whether the magnitude of asset ownership acts as a moderator on the influence of stockownership on political identity.

While the transition to a financial “ownership society” is now a reality – as most Americans do own stock either directly or indirectly – there is much to understand about how financial ownership influences political behavior. Stockholders may be in general sophisticated voters who pursue their “rational” economic interests, but their perceptions of their interests and their political behaviors are subject to psychological and social processes. As a result, understanding how individuals vote with their pocketbooks – as they see them – is not as clearcut as it was in Madison's time.

Tables and Figures

Figure 1: S&P 500 Market Index performance during President George W. Bush's presidency



Source: CRSP, via WRDS database

Table 1: Percentage of shareholders and non-shareholders agreeing with each statement, 2004

	Non-shareholders	Shareholders
Government is run by a few big interests	58	55
The gap between rich and poor has grown in past 20 years	79	79
...this is bad	57	62
I oppose school vouchers	63	69
The federal government should discourage companies from outsourcing	63	66
The rich pay less tax than they should	61	58
I'll be better off financially in a year	39	36
The economy will get better in a year	34	34
The economy is worse since Bush became President	55	55
I approve of Bush's tax cuts	31	45*
I favor allowing Social Security funds to be invested in the stock market	36	50*
I approve the President's handling of his job in general	45	55*
I approve the President's handling of the economy	32	49*
Pre-election: intend to vote for Bush	39	50*
Post-election: voted	70	93*
Post-election: voted for Bush	40	56*

* significant difference at $p < .05$

Table 2: Descriptive Statistics and Correlations for Variables in 2000

Variable	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9
1. Republican	0.28	0.45	0.00	1.00									
2. High Income	0.23	0.42	0.00	1.00	0.15								
3. High Education	0.35	0.48	0.00	1.00	0.06	0.31							
4. Homeowner	0.67	0.47	0.00	1.00	0.11	0.15	0.09						
5. Black	0.09	0.28	0.00	1.00	-0.17	-0.09	-0.11	-0.13					
6. Worse Off	2.69	0.92	1.00	5.00	0.12	-0.12	-0.07	0.02	-0.03				
7. Stockholder	0.62	0.49	0.00	1.00	0.09	0.26	0.29	0.28	-0.17	-0.11			
8. Alternativeness	0.19	0.15	0.00	0.94	-0.01	-0.04	-0.03	-0.07	0.15	0.01	-0.14		
9. Moral Position	0.44	0.19	0.00	1.00	0.29	-0.02	-0.19	0.09	0.04	0.12	-0.08	0.22	
10. Economic Position	0.38	0.19	0.00	1.00	0.38	0.18	0.14	0.20	-0.24	0.00	0.19	-0.07	0.26

Table 3: Descriptive Statistics and Correlations for Variables in 2004

Variable	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9
1. Republican	0.31	0.46	0.00	1.00									
2. High Income	0.27	0.44	0.00	1.00	0.09								
3. High Education	0.37	0.48	0.00	1.00	0.11	0.41							
4. Homeowner	0.67	0.47	0.00	1.00	0.12	0.24	0.17						
5. Black	0.13	0.34	0.00	1.00	-0.24	-0.09	-0.12	-0.20					
6. Worse Off	2.82	1.20	1.00	5.00	-0.27	-0.10	-0.03	-0.09	0.09				
7. Stockholder	0.57	0.50	0.00	1.00	0.23	0.36	0.36	0.34	-0.23	-0.10			
8. Alternativeness	0.19	0.14	0.00	0.72	0.02	-0.02	-0.08	-0.02	0.10	0.10	-0.09		
9. Moral Position	0.40	0.20	0.00	0.98	0.39	-0.11	-0.13	0.08	0.02	-0.06	0.01	0.26	
10. Economic Position	0.36	0.21	0.00	1.00	0.40	0.20	0.13	0.22	-0.26	-0.25	0.25	0.01	0.36

Table 4: Descriptive Statistics and Correlations for Variables in 2008

Variable	Mean	S.D.	Min	Max	1	2	3	4	5	6	7	8	9
1. Republican	0.22	0.41	0.00	1.00									
2. High Income	0.24	0.43	0.00	1.00	0.16								
3. High Education	0.25	0.43	0.00	1.00	0.12	0.32							
4. Homeowner	0.62	0.49	0.00	1.00	0.17	0.21	0.15						
5. Black	0.24	0.43	0.00	1.00	-0.27	-0.14	-0.12	-0.11					
6. Worse Off	3.28	1.28	1.00	5.00	-0.11	-0.02	-0.04	0.08	-0.01				
7. Stockholder	0.41	0.49	0.00	1.00	0.22	0.35	0.29	0.24	-0.23	0.00			
8. Alternativeness	0.19	0.14	0.00	0.83	-0.02	-0.02	-0.03	-0.01	0.09	0.02	-0.07		
9. Moral Position	0.45	0.19	0.00	1.00	0.25	0.00	-0.11	0.13	0.00	-0.07	-0.03	0.32	
10. Economic Position	0.37	0.16	0.00	0.88	0.39	0.22	0.14	0.18	-0.28	-0.11	0.26	-0.23	0.19

Figure 2

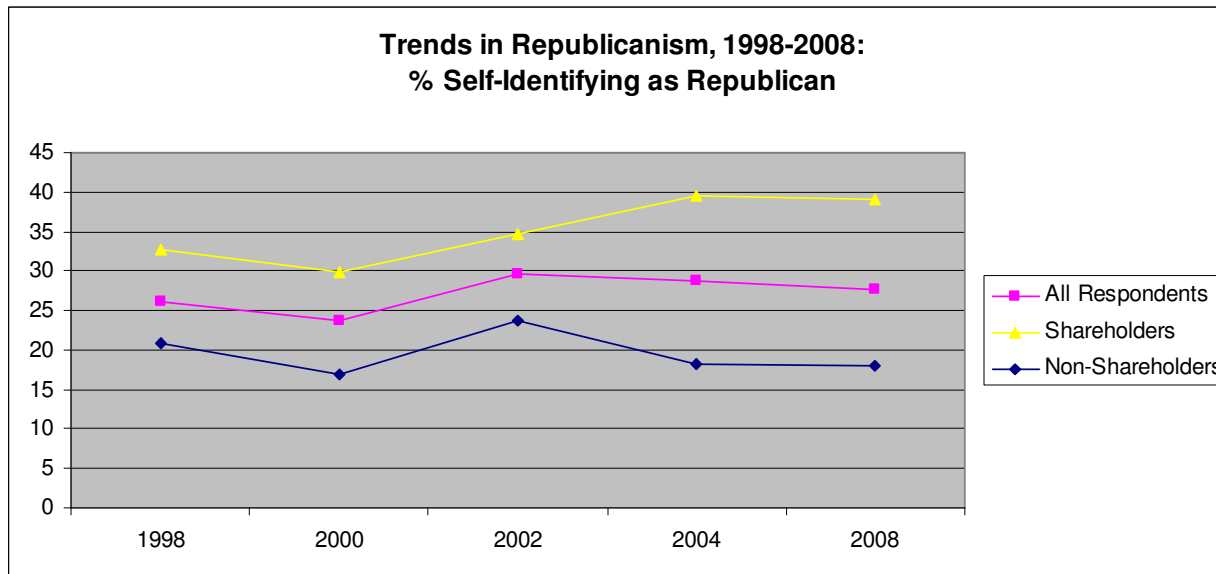
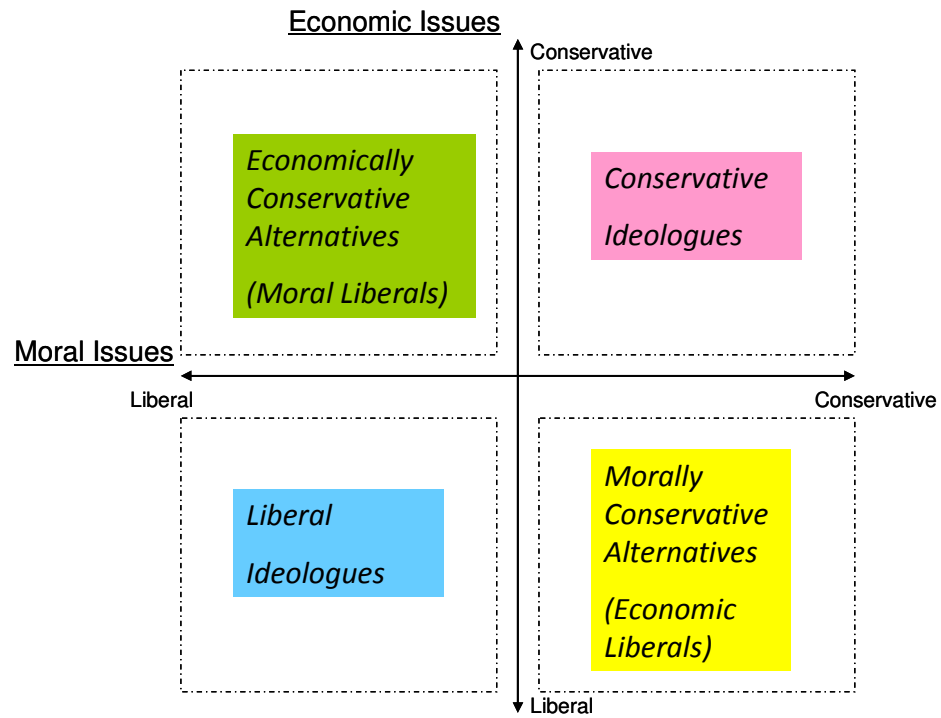


Figure 3



Cotton Nessler and Davis: Stock Ownership, Political Beliefs, and Party Identification

Table 5: Logistic Regression on Republican Identification (odds ratios)

	1998		2000		2002		2004		2008	
High Income	1.529 *	1.364 +	1.947 ***	1.870 ***	1.286	1.224	1.049	0.884	1.519 **	1.327 +
High Education	1.206	1.106	1.303 +	1.226	1.375 *	1.279+ +	1.311	1.048	1.249	1.055
Homeowner	1.016	0.944	1.638 **	1.529 *	1.381 +	1.282	1.218	0.983	2.099 ***	1.890 ***
Black	0.116 ***	0.125 ***	0.160 ***	0.168 ***	0.152 ***	0.156 ***	0.030 ***	0.032 ***	0.075 ***	0.084 ***
Worse Off	1.152 *	1.169 *	1.371 ***	1.402 ***	0.828 *	0.823 **	0.652 ***	0.654 ***	0.749 ***	0.749 ***
Stockowner		1.495 **		1.335 *		1.327 *		2.376 ***		1.835 ***
Constant	0.240 ***	0.209 ***	0.087 ***	0.074 ***	0.586 +	0.548 *	1.315	1.025	0.550 **	0.472 ***
N	1244	1231	1619	1613	1406	1401	1085	1085	1971	1963

Legend: + p<0.10; * p<0.05; ** p<0.01; *** p<0.001; one-tailed tests for Stockowner, two-tailed tests for controls

Table 6: Logistic Regression on Republican Identification (odds ratios)

	2000			2004			2008		
High Income	1.870 ***	2.059 ***	2.048 ***	0.884	0.781	0.776	1.327 +	1.295	1.286
High Education	1.226	1.078	1.066	1.048	1.133	1.138	1.055	1.027	1.022
Homeowner	1.529 *	1.417 +	1.405	0.983	0.888	0.892	1.890 ***	2.232 ***	2.256 ***
Black	0.168 ***	0.071 **	0.072 **	0.032 ***	0.046 ***	0.047 ***	0.084 ***	0.065 ***	0.066 ***
Worse Off	1.402 ***	1.453 ***	1.473 ***	0.654 ***	0.579 ***	0.577 ***	0.749 ***	0.686 ***	0.686 ***
Stockowner	1.335 *	1.339 +	0.953	2.376 ***	2.901 ***	5.423 ***	1.835 ***	1.894 ***	1.668 *
Alternativeness		1.291	0.433		3.597 +	22.520 *		1.369	0.936
Alternativeness x Stockowner			6.109 +			0.039 *			2.000
Constant	0.074 ***	0.076 ***	0.093 ***	1.025	1.108	0.760	0.472 ***	0.551 *	0.592 +
N	1613	1110	1110	1085	815	815	1963	1645	1645

Legend: + p<0.10; * p<0.05; ** p<0.01; *** p<0.001; one-tailed tests for Stockowner and interaction term; two-tailed tests for Alternativeness and controls

Table 7: Logistic Regression on Republican Identification (odds ratios), 2008 by Group

	<u>Ideologues</u>		<u>Alternatives</u>	
	Conservatives	Liberals	Economic Conservatives (Moral Liberals)	Moral Conservatives (Economic Liberals)
High Income	1.242	0.847	1.199	1.27
High Education	2.280 +	1.349	1.64	0.393 +
Homeowner	3.394 +	1.210	3.073 *	1.242
Black [*]		0.272 *	0.062 *	
Worse Off	0.662 *	0.641 ***	0.958	0.714 *
Stockowner	1.538	2.080 *	0.863	2.268 **
Constant	1.149	0.422 *	0.367	0.832
N	182	667	142	287

Legend: + p<0.10; * p<0.05; ** p<0.01; *** p<0.001; one-tailed tests for Stockowner; two-tailed tests for controls

^{*} Variable Black perfectly predicted non-Republican identification and was dropped in two of the models, resulting in fewer observations

Cotton Nessler and Davis: Stock Ownership, Political Beliefs, and Party Identification

Table 8: Logistic Regression on Republican Identification (odds ratios), 2000-2008 by Group

	<u>Ideologues</u>						<u>Alternatives</u>					
	Conservatives			Liberals			Economic Conservatives (Moral Liberals)			Moral Conservatives (Economic Liberals)		
	2000	2004	2008	2000	2004	2008	2000	2004	2008	2000	2004	2008
High Income	1.629	0.859	1.242	2.897 **	0.599	0.847	2.868 *	1.436	1.199	0.891	1.18	1.27
High Education	0.818	2.775	2.280 +	0.606	1.185	1.349	1.712	0.537	1.64	1.67	2.59	0.393 +
Homeowner	0.486	0.283	3.394 +	1.784	0.598	1.210	0.683	0.602	3.073 *	0.948	1.746	1.242
Black*	0.216			0.052 **		0.272 *			0.062 *		0.072 **	
Worse Off	1.032	0.562 *	0.662 *	1.964 ***	0.634 ***	0.641 ***	1.845 *	0.589 *	0.958	0.991	0.599 *	0.714 *
Stockowner	1.981 +	2.942 *	1.538	0.883	2.373 **	2.080 *	3.232 *	5.064 **	0.863	0.991	1.462	2.268 **
Constant	2.146	9.578 +	1.149	0.015 ***	0.795	0.422 *	0.043 ***	1.512	0.367	0.48	1.964	0.832
N	121	84	182	413	313	667	130	88	142	165	128	287

Legend: * p<0.10; * p<0.05; ** p<0.01; *** p<0.001; one-tailed tests for Stockowner; two-tailed tests for controls

* Variable Black perfectly predicted non-Republican identification and was dropped in several models, resulting in fewer observations

Figure 4

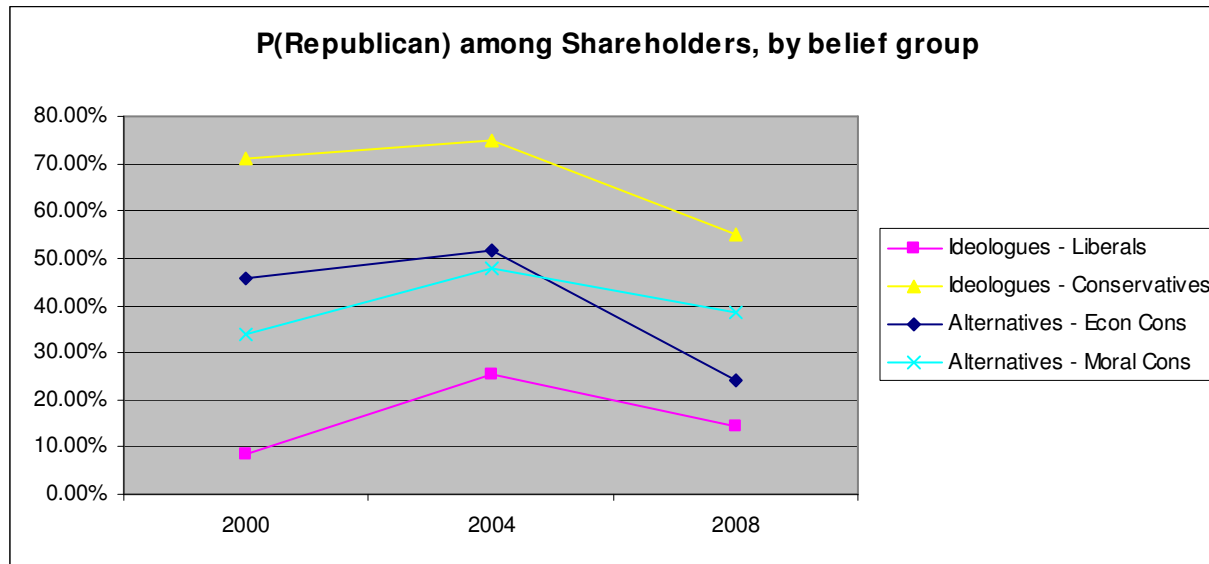


Figure 5

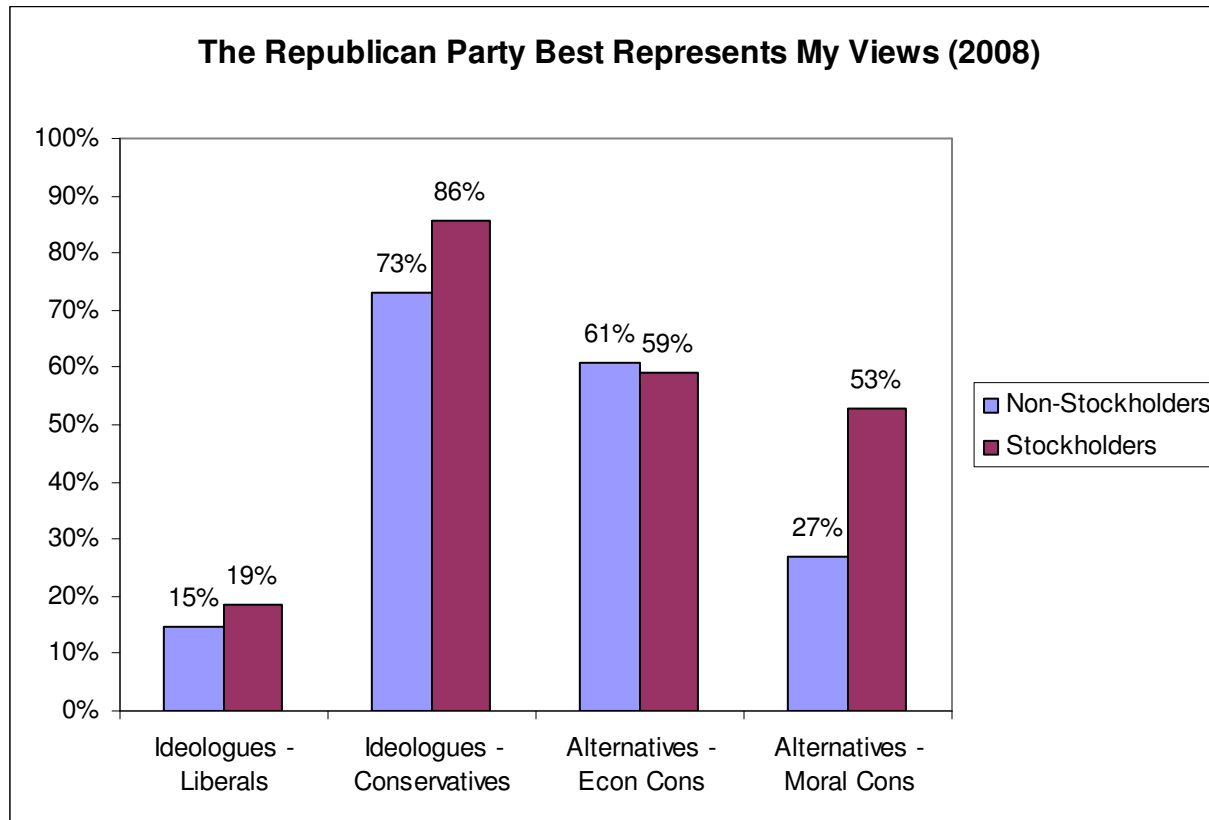
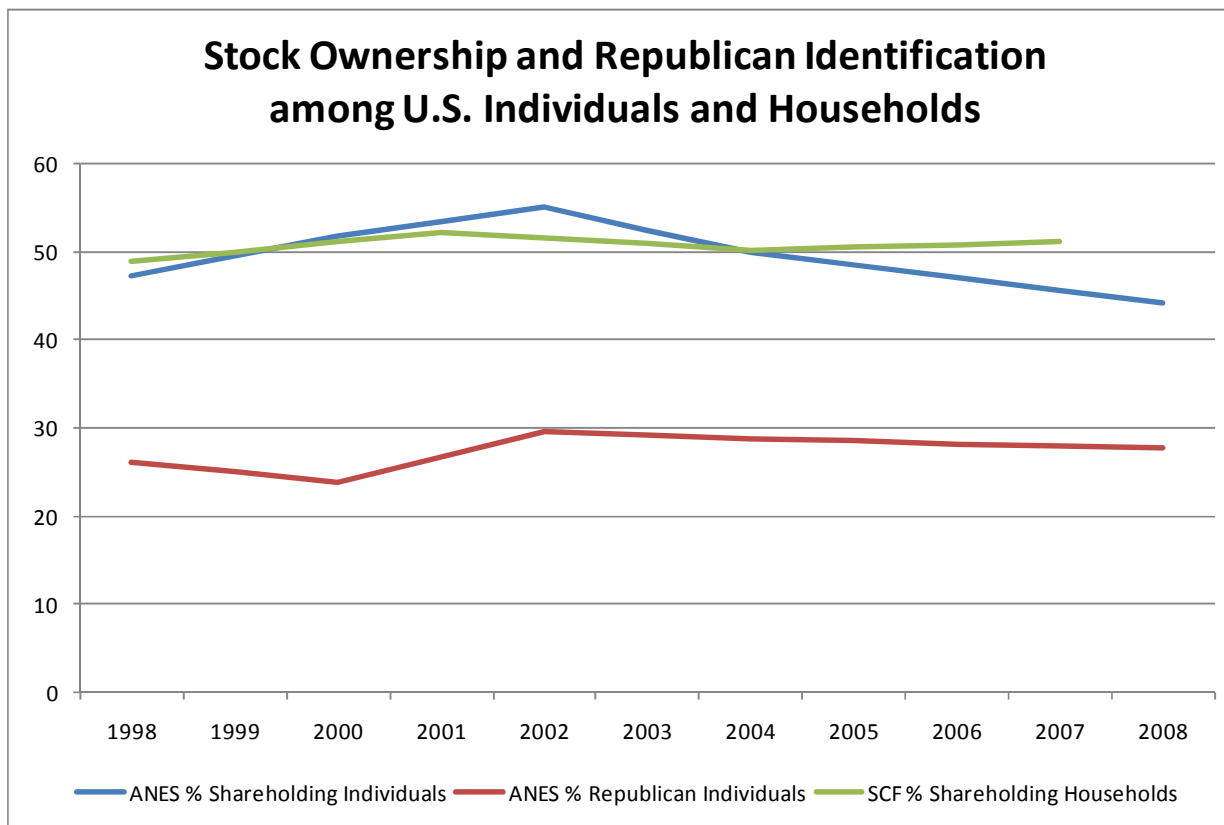


Figure 6



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