

The President's party almost always loses seats in the House of Representatives during the midterm elections -- so expect to see the Republicans lose some seats in 2020. Political Science scholars explain this regularity by assuming a successful president brings a wave of voters into the polling booth, which helps elect down-ticket members of his own party. However, these voters do not have a presidential election to draw them into polling booth during midterms, and without these voters, some members of the president's party will not collect enough votes to be reelected.

I never found this story to be convincing, mostly because the president's party loses seats in the House even when the presidential election is close. In tight presidential elections, the winning presidential candidate does not provide a large wave of voters to help his party's down-ticket candidates. Without the initial wave of temporary support, presidential party incumbents in the House do not have this voting bloc to lose — so there must be another reason to explain the midterm losses of the President's party.

Loss aversion, an idea used in Psychology and in Behavioral Economics, may provide a more satisfying explanation for the midterm losses in the president's party. In its most raw form, loss aversion is just the idea that people will work harder to avoid a loss than they will work to obtain a gain of an equal amount. To provide a numerical example, people will put more effort into avoiding a \$100 loss and comparatively less effort into obtaining a \$100 benefit.

In order to apply loss aversion to election outcomes, we need to first identify which benefits and costs are relevant. The important benefits and costs from a political election come from transfer payments, which are just what economists would call a zero sum game. That is, if one person gains, another person loses by an equal amount. For instance, if the government taxes you an extra \$100 to pay for a program that supports a senior citizen center, the money is just transferred from you to the seniors.

When a president gets elected, he will start transferring money away from some groups that are not in his political coalition. He will give the money to other groups that have won his favor politically. The groups getting stuck paying for these transfers will try to avoid having to make these payments in the future by voting and campaigning against the President's party. Remember that since people are loss averse, this group will put more effort into avoiding these losses than they would put into trying to achieve equivalent gains. By the same token, the interest groups benefiting from the president's transfers will not work as hard to keep the benefits, as the other group will work to avoid the losses.

The result is a cycle. After a presidential election, interest groups in the president's favor get benefits and other groups get losses. The group on the losing side will work hard to avoid having to continue to pay for these transfers. The group gaining the transfer will not work as hard to keep its benefit. The extra effort put in by groups hostile to the president will cause his party to experience midterm losses.

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