

Proposal for Center for Equitable Growth (CEG) Grant – May 2010

The Obama Effect on Economic Outcomes: Evidence from Event Studies

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Racial differences in economic outcomes are wide-spread and persistent, from wage levels to call-back rates in interviews. The differences extend beyond the workplace to political choices, health outcomes, and pricing. Can a salient role model affect such inequities?

Theories of statistical discrimination and of identity posit that these differences are, at least partly, the effect of perceptions---of skill and of identity. If Whites believe that Blacks are lower ability, they may adopt discriminatory behavior. Conversely, Blacks who believe that they are discriminated may not put as much work effort because they do not believe that it will pay off. They may also choose to embrace a counter-cultural identity that leads them to reject a "White society".

These two theories, but not taste-based discrimination, share the prediction that a change in perceptions about racial differences and relations may therefore affect the racial gap in outcomes. While perceptions are generally slow to change, prominent role models can induce such change. But do they?

In this proposal, I study the impact of Barack Obama's candidacy and ultimate election to 44th President of the United States. This prominent role model has plausibly changed the perceptions of what Blacks can achieve, and the perception of race relations. For example, among respondents of a Gallup poll on November 5, 67 percent believe a solution for race relations in the US "will eventually be worked out", a share that is significantly higher than in past polls (54 percent in both 2006 and 2007). But did it affect economic outcomes?

I use an event study methodology to address this question. I focus on key election events, such as the first primary victory (January `08), the Democratic convention (August `08), the general election (November `08), and the inauguration (January `09). These events discretely changed the priors about Obama's electability, or increased his prominence. To separate the Obama effect from confounding factors, such as the economic crisis, I examine the impact of the events at the daily or monthly level, attempting to hold constant the underlying economic trends, and focus on differential outcomes for Blacks compared to Whites (a difference-in-difference strategy).

First, I consider whether these events affected a measure of race-based discrimination, racial profiling in car stops. Using comprehensive data sets of all traffic stops in Illinois and Texas, I examine whether in the days following favorable Obama events there is a decrease in the observed amount of profiling, measured as the either the share of Blacks that is searched, or the share of searches that are successful (the Knowles-Persico-Todd measure). This will provide a window into whether the Obama role model affected race-based profiling by the (mostly White) police force.

Second, I propose to examine the impact of the Obama events on a range of economic outcomes for Blacks: (i) crime rates; (ii) workplace outcomes, such as labor force participation; (iii) educational choices, including application to professional schools; (iv) contribution to public goods, measured by organ donations; and (v) time use, such as time spent helping in the household, as opposed to watching television.

Overall, this proposal has significant policy implications because better understanding the determinants of racial differences in outcomes is a policy priority. In particular, it is important to know whether there can be important impacts of high-achieving prominent Blacks.