FORECASTING THE 2012 ELECTION WITH THE FISCAL MODEL

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About the author

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   In March 2009, when President Obama was basking in the glow of the honeymoon with the public every new president enjoys, in an on-line publication I asked, "Will Barack Obama be a One-Term President?"[2] What prompted me to do so was the projected path of federal spending, which at the time showed an alarming rate of increase. In fact, the Office of Management and Budget currently estimates that by 2012, federal outlays will take up 23.2% of gross domestic product (GDP), up 2.5 percent points since 2008.[3]

   To appreciate the implications for President Obama's prospects for reelection, examine the accompanying graph. It tracks F, the percent of GDP spent by the federal government from one presidential election year to the next. Years in which the incumbents won a majority of the major party vote are

Fiscal Ratio and Victory or Defeat in Popular Vote for President
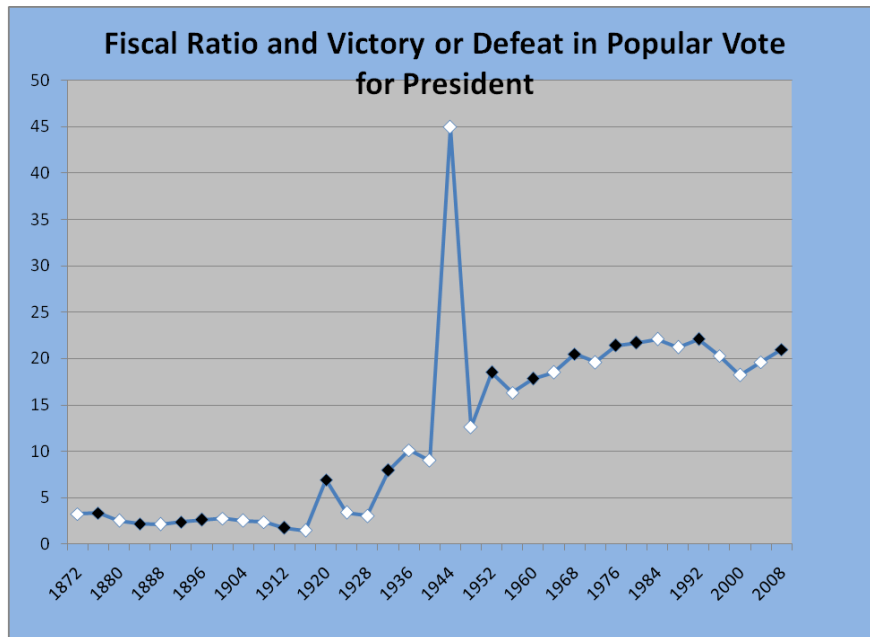
indicated by white dots, all others by black dots. Observe the slope of the F-line

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[1] This paper draws from several previous papers and publications. See the bibliography.

[2] *TCSDaily*. A Publication of Tech Central Station. Available at http://uwf.edu/govt/documents/Cuzan-2009-Will%20Barack%20Obama%20Be%20a%20One-Term%20President-tcsdaily.pdf.

[3] The White House. Office of Management and Budget. The Budget. Historical Tables. Table 1.2. http://www.whitehouse.gov/omb/budget/Historicals/

connecting the dots. Note that only three times did incumbents succeed in hanging on to the White House at the end of a term in which the spending did not decline or at least moderate its rate of growth relative to the previous term. Those exceptions were Franklin Roosevelt in 1944, Ronald Reagan in 1984, and
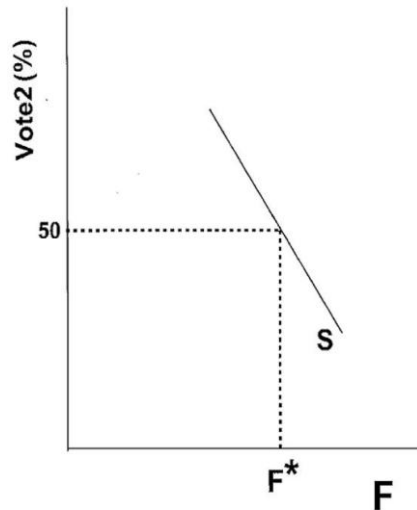

Figure 1

George W. Bush in 2004. The Roosevelt exception, coming at the peak of World War II, the last popular war, needs no explanation. Reagan's fiscal expansion amounted to less than 1%, and was accompanied by a vigorous economic expansion. Neither condition applied to George W. Bush, and it showed: in 2004, he barely squeaked through, winning reelection by the smallest margin in the major party vote of any sitting president in more than a century. (See the Data Appendix.)

The bivariate relation between federal spending and presidential reelection shown in the graph may well be spurious, but the fiscal model offers reasons and evidence to doubt it. The model rests on the premise that the share of the two-party vote going to the incumbents, VOTE2, is inversely related to changes in F, as shown in Figure 1. The intuition is that F represents the equivalent of a fee that the federal government charges the polity for its services. As with any commodity, the higher the federal fee, the smaller the quantity demanded. However, unlike consumers, voters are not able to reduce their purchases from Washington when its fee goes up. Instead, assuming there has been no change in their evaluation of federal goods and services,[4] they do the

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[4] A forward shift in the support function would be equivalent to a rightward shift in the demand function, which implies that consumers are willing to buy more of the good or service at any given price; if the supply curve is not perfectly elastic, this would result in more of the product being sold at a higher price. Similarly, a forward shift in the support function would signify that voters are willing to support an increase in the share of GDP spent by Washington. This shift may be temporary, as in during a war widely regarded as legitimate, or long-term, caused by changes in demography, tastes, income, etc. See Cuzán and Bundrick (2004)

next best thing. Switching metaphors, they "fire" the incumbents on Election Day. Viewed in this light, *ceteris paribus,* an election is equivalent to a retrospective-minded referendum on, the president's fiscal policy.

A change in F yields F1. F1=F_t – F_{t-1}, where t=election year and t-1 the previous election year. Since F is a percent, F1 denotes the percent point change in F from one presidential term to the next, e.g., if F rises from 19% to 20%, F1=1.0. In turn, F1 yields a binary variable describing spending policy:

> FPRIME = 1 if F1 > 0 (policy is expansive)
> FPRIME = -1 if F1 < 0 (policy is contractionary)

By itself, FPRIME is a powerful predictor of election outcome (victory or defeat for the incumbents in the two-party vote for president), 1872-2004. If FPRIME=-1 (policy is contractionary), incumbents win almost 90% of the time; if FPRIME is 1(an expansive policy), they lose about 70% the time. Seventy five percent of the cases behave as expected. The respective percentages over the 1916-2008 period, the one used for forecasting the vote (see below) are 88%, 65%, and 76%.

The negative relation between FPRIME and VOTE2 persists in the presence of controls for party (Democrat or Republican), and three variables borrowed or adapted from Ray Fair (2008): GROWTH, GOODNEWS, and DURATION. GROWTH is the annualized rate of real per capita GDP growth in the first three quarters of the election year. ALLNEWS is similar to Fair's GOODNEWS, the number of quarters through all but the last quarter of the presidential term in which GROWTH is greater than 3.2%, except that, unlike Fair, its value in his "war" years (1920, 1944, 1948) are not zeroed out. DURATION is a weighted index of the number of consecutive terms the incumbents have occupied the White House: 0, 1.0, 1.25, 1.50, and so on.

Estimating a multiple regression model across the 24 elections held since 1916, the period Fair uses for forecasting VOTE2, yields the following:

> V =   49.2 - 1.99 (FP) + 0.68 (G) + 0.87(AN) – 4.2(D) – 2.2(P) + ε
> (44.6) (-5.9)   (8.1)   (5.5)   (-5.6)   (-4.8)
> Adj. R-sq. = 0.91   SEE = 2.05   Durbin-Watson = 1.65
> N = 24

Where

> V=VOTE2, FP=FPRIME, G=GROWTH, AN=ALLNEWS, D=DURATION, P=PARTY (1=Democrat, -1=Republican), and ε is an error term; t-statistics are in parentheses.

Note that a switch in policy from contractionary to expansive, i.e., a shift in FPRIME from -1 to 1, costs the incumbents approximately 4% of the two-party

vote. (FPRIME is coded -1 or 1, so to estimate the effect on the dependent variable one needs to multiply the coefficient by two.)

In out-of-sample predictions, the outcome was called correctly in 21 out of 24 elections (88% of the time). The "miscalls" fell in 1948, 1968, and 1976, elections all when the outcome was close, i.e., 48%≤VOTE2≤52%.

Will Barack Obama Win Reelection in 2012?

Since 1880, only six sitting presidents out of 22 (27%) have lost their bid for reelection: Benjamin Harrison (1888), William Howard Taft (1912), Herbert Hoover (1932), Gerald Ford (1976), Jimmy Carter (1980), and George H. W. Bush (1992).[5] So if history reflects true odds, President Obama's prospects for winning another term in the White House are very good. Examining the relationship more closely, however, we find that the advantage of incumbency is mediated by fiscal policy. Of the 22 presidents that sought re-election, half pursued an expansive policy and the other half a contractionary policy. Of the latter, 10 out of 11 (91%) won a second term, but of the former only 6 out of 11 did (55%). Since he has pursued an expansive fiscal policy, President Obama's prospects are less rosy than those of the typical president seeking reelection. The one thing that can help him overcome this handicap is a growing economy. Accordingly, the following table displays what the fiscal model forecasts for VOTE2 in 2012 under different assumptions about the economy.

Table 1. Forecasting Obama's VOTE2 under different economic assumptions.			
If GROWTH and all NEWS are the same as those of a previous president or as Fair forecasts	GROWTH	ALLNEWS	Obama's VOTE2 will be
Carter	-3.66	5	46.9
Clinton	3.26	4	50.7
Reagan	5.42	8	55.6
Fair's October 29, 2010 economic forecast	3.69	6	52.7

Four possibilities are examined, three conforming to the conditions that previous presidents faced (Carter, Clinton, Reagan), and the last being Fair's initial forecast for 2012, which he acknowledges to be "probably more optimistic than what most people think will happen in the next two years" (Fair 2010, 12). Presidents Carter, Clinton, and Reagan serve as benchmarks because, as his second year in the White House draws to a close, Obama's approval rating is about where theirs was around this time in their tenure. The economy is the only variable because DURATION and PARTY are set and FPRIME is also more than likely set, as well—it would seem to be impossible to reverse fiscal course by now.

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[5] Grover Cleveland is an ambiguous case. He barely won the popular vote in 1884, but lost in the Electoral College. He made a comeback at the next election, the only president ever to have done so.

The worst and perhaps least likely scenario is a Carter-like economy, which would spell certain defeat. The best scenario would be a Reagan-like economy, which would make Obama unbeatable. This, too, is unlikely, for unlike Reagan, President Obama has not pursued pro-growth policies. The most likely economic scenario, then, will fall somewhere between Clinton's and Fair's October 29, 2010 forecast. Clinton won reelection easily, with nearly 55% of the vote, but he had one thing going for him that Obama does not: a contractionary fiscal policy. Even if the economy performs better than under Clinton, then, the outcome of the 2012 presidential election is likely to be close, something like those of 1948 and 1976.

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Year	F	F1	FPRIME	GROWTH	NEWS	DUR	PARTY	VOTE
1872	3.26	-2.08	-1				-1	56.00
1876	3.35	0.09	1				-1	48.00
1880	2.55	-0.8	-1	3.879	9	1.75	-1	50.22
1884	2.22	-0.33	-1	1.589	2	2	-1	49.85
1888	2.16	-0.06	-1	-5.553	3	0	1	50.41
1892	2.41	0.25	1	2.763	7	0	-1	48.27
1896	2.65	0.24	1	-10.024	6	0	1	47.76
1900	2.79	0.14	1	-1.425	7	0	-1	53.17
1904	2.55	-0.24	-1	-2.421	5	1	-1	60.01
1908	2.38	-0.17	-1	-6.281	8	1.25	-1	54.48
1912	1.75	-0.63	-1	4.164	8	1.5	-1	54.71
1916	1.48	-0.27	-1	2.229	3	0	1	51.68
1920	6.95	5.47	1	-11.463	5	1	1	36.12
1924	3.43	-3.52	-1	-3.872	10	0	-1	58.24
1928	3.05	-0.38	-1	4.623	7	1	-1	58.82
1932	7.96	4.91	1	-14.586	4	1.25	-1	40.84
1936	10.13	2.17	1	11.836	9	0	1	62.46
1940	9.02	-1.11	-1	3.901	8	1	1	55.00
1944	44.93	35.91	1	4.233	14	1.25	1	53.77
1948	12.61	-32.32	-1	3.638	5	1.5	1	52.37
1952	18.49	5.88	1	0.726	7	1.75	1	44.60
1956	16.35	-2.14	-1	-1.451	5	0	-1	57.76
1960	17.85	1.5	1	0.455	5	1	-1	49.91
1964	18.50	0.65	1	5.087	10	0	1	61.34
1968	20.50	2	1	5.049	7	1	1	49.60
1972	19.60	-0.9	-1	5.949	4	0	-1	61.79
1976	21.40	1.8	1	3.806	5	1	-1	48.95
1980	21.70	0.3	1	-3.659	5	0	1	44.70
1984	22.10	0.4	1	5.424	8	0	-1	59.17
1988	21.20	-0.9	-1	2.210	4	1	-1	53.90
1992	22.10	0.9	1	2.949	2	1.25	-1	46.55
1996	20.30	-1.8	-1	3.258	4	0	1	54.74
2000	18.20	-2.1	-1	2.014	8	1	1	50.27
2004	19.62	1.42	1	1.989	1	0	-1	51.23
2008	20.70	1.08	1	-2.260	1	1	-1	46.3