

# FORECASTING THE 2012 PRESIDENTIAL ELECTION WITH THE FISCAL MODEL:

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The fiscal model of American presidential elections consists of five variables, four borrowed or adapted from Ray Fair's [Presidential Vote Share Equation](#): GROWTH (g is his current symbol), ALLNEWS (z, except that Fair zeroes out this variable in 1920, 1944, and 1948 whereas in the fiscal model the actual values are entered), DURATION (DUR) and PARTY (P). The first two are positively associated and the latter two negatively correlated with the incumbent share of the two-party vote.

The fifth variable, the one that lends the model its name, measures the change in federal outlays/GDP, what we call "fiscal policy" ([Cuzán and Heggen 1984](#); [Cuzán, Heggen and Bundrick 2009](#)). If fiscal policy is expansive or expansionary relative to GDP, the incumbents suffer at the polls; conversely, if it is cutback or contractionary, they benefit. We have two metrics for fiscal policy, FISCAL and FPRIME. Each is a binary variable, taking the value of 1 if fiscal policy is expansionary or expansive, -1 otherwise. In most years, these variables take the same sign, but for reasons explained elsewhere (see [Cuzán and Bundrick, 2008](#) and [Cuzán and Bundrick, 2009](#)), in 1980 and 2008 they took opposite signs. In 2012, both are equal to 1. That is a given. So are PARTY (Democrat = 1) and DURATION (first term = 0).

So, all that remains is to enter into the model the values of GROWTH and ALLNEWS. [Fair's latest forecasts](#) for g and z are 3.64% and 4, respectively. Since to date

no Obama quarter has been "good" (i.e., none has seen real per capita GDP growth greater than 3.2%), "the assumption is that there will be strong growth between now and the election." Acknowledging that "Most current economic forecasts are, however, much less optimistic than this," Fair also entertained a different set of values, viz.,  $g=2$  and  $z=0$ . These numbers are consistent with the [August 2011](#) average forecast of 37 professional forecasters for quarters 12-15 of the Obama administration posted at the Federal Reserve Bank of Philadelphia. Under the original assumptions, Fair's presidential vote equation forecast for Obama's share of the two-party vote is 53.4% (almost exactly the same share that Obama received in 2008), and under the more pessimistic economic assumptions, 48.4%, i.e., "a narrow Republican victory."

Plugging these sets of values into the two versions of the fiscal model and averaging the results, I get 49.9% and 45%, respectively. That is, under Fair's more optimistic assumptions, the fiscal model forecasts a virtual tie in the popular vote, with the outcome uncertain; under the pessimistic assumptions, the result is a decisive Republican victory, a defeat for the Democrats in the order of what they suffered in 1980.