

Forecasting the 2012 Presidential Election with the Fiscal Model

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In March 2009, at a time when President Obama was basking in the glow of the honeymoon with the public every new president enjoys, I asked, “Will Barack Obama be a one-term president?”¹ What prompted me to pose so impertinent a question at so hopeful a time was that the Office of Management and Budget was projecting that that year the federal government would spend 28% of gross domestic product. This amounted to a 7 percent points increase compared to the previous year, the largest peacetime one-year jump since 1930.² The most recent estimate for 2012 is that federal outlays will take up 24.3% of GDP, up 3.5 percent points since 2008. This is the second-largest peacetime increase from one election year to the next since 1880, edged out only by Franklin D. Roosevelt’s first term surge of 3.6 percent points.³

<Figure 1 about here>

To appreciate the implications of this spike in federal spending for President Obama’s prospects for reelection, examine figure 1. It tracks F, the percent of GDP spent by the federal government from one presidential election year to the next.⁴ Years in which the incumbents won a majority of the two-party vote (VOTE2) are indicated by white dots, all others by black dots. Observe the slope of the F-line connecting the dots. Note that only five times have incumbents succeeded in hanging on to the White House at the end of a term in

which spending relative to GDP did not decline or at least moderate its rate of growth compared to the previous term. Those exceptions fell in 1908, at the end of Teddy Roosevelt's second term; in 1936 and 1944, two of Franklin Roosevelt's reelections; in 1984, when Ronald Reagan won a second term; and in 2004, when George W. Bush, too, was reelected. Note that three of these exceptions involved charismatic presidents who had survived assassination attempts, both Roosevelts and Reagan, and one of those also had to do with World War II, the last popular war. Also, Reagan's fiscal expansion was accompanied by vigorous economic growth. None of these conditions applied to George W. Bush, and it showed: in 2004, he retained the White House by the smallest margin in the major party vote of any sitting president in more than a century. More to the point of the purpose of this article, none of those conditions is present in 2012, either.⁵

The bivariate relation between federal spending (again, as a percent of GDP) and presidential reelection shown in the graph may well be spurious, but the Fiscal Model offers reasons and evidence to doubt it. The intuition is that F represents the equivalent of a fee that the federal government charges the economy for its services. As with any commodity, the higher the federal fee, the smaller the quantity demanded. However, unlike consumers in a market, 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,⁶ they do the next best thing. Switching metaphors, on Election Day they "fire" the incumbents. 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 F_1 , the first derivative of F with respect to time, in this case the four-year presidential term. $F_1 = F_t - F_{t-1}$, where t =election year and $t-1$ is the previous election year. In other words, F_1 denotes the percent point change in spending from one presidential term to the next; for example, if F rises from 19% to 20%, $F_1=1$. In turn, F_1 yields a binary variable describing spending policy: $FPRIME = 1$ if $F_1 > 0$ (policy is expansionary) and $FPRIME = -1$ if $F_1 < 0$ (policy is contractionary). A related spending measure is $FISCAL$. $FISCAL$ is calculated by combining F_1 with *its* derivative, F_2 . If $F_1 > 0$ and $F_2 \geq 0$, this means that in the current term F has increased at the same or faster rate than in the previous term. $FISCAL = 1$ (policy is expansive). On the other hand, if $F_1 = 1$ but $F_2 < 0$, this shows that, although F has risen since the previous election, it has done so at a slower rate. In other words, it signals to the electorate that the growth in spending has decelerated.⁷ Thus $FISCAL = -1$ (policy is cutback) if $F_1 < 0$ *or* if $F_1 \geq 0$ and $F_2 < 0$. $FISCAL$ and $FPRIME$ are fairly strongly correlated (Pearson's $r = 0.79$). Since 1872, only four times have these variables taken opposite signs.⁸

$FISCAL$ and $FPRIME$ are strong predictors of election outcome (victory or defeat for the incumbents in the two-party vote for president), 1880–2008. If $FPRIME = -1$ (policy is contractionary), incumbents win more than 85% of the time; if $FPRIME = 1$ (an expansionary policy), they lose about three-fifths of the time. Seventy percent of the cases behave as expected. Using $FISCAL$ as the spending measure yields similar results. The negative relation between $FPRIME$ or $FISCAL$ and $VOTE2$ persists in the presence of controls for $PARTY$, Democrat (1) or Republican (0), and three variables borrowed or adapted from Fair (2012): $GROWTH$, $ALL\ NEWS$, 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's, its values in his "war" years (1920, 1944, 1948) are not zeroed out. Both measures of economic performance are expected to have a positive impact on the vote.⁹ By contrast, DURATION, 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), should have a negative effect.

<Insert Table 1 about here>

Table 1 displays the estimates of two pairs of regression models, one across the 24 elections held since 1916, the period Fair uses for forecasting VOTE2, and another across the 33 elections held since 1880. All variables behave as expected: both measures of economic growth have a positive effect on the vote, the longer the incumbent party occupies the White House, the smaller its vote share, and Democrats do less well than Republicans. Note that a policy switch from contractionary (or cutback) to expansionary (or expansive), that is, a shift in FPRIME (or FISCAL) from -1 to 1, on average costs the incumbents approximately 4% points in the two-party vote. (FPRIME and FISCAL are coded -1 or 1; therefore, to estimate their effect on VOTE2 one needs to multiply their coefficients by two.)

Will Barack Obama win reelection in 2012? Since 1880, only 6 out of 22 times (27%) has a sitting president lost his 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).¹⁰ In fact, only

twice has the popular vote gone against a president in the first term of a party reign (Harrison and Carter). If history reflects true odds, then, President Obama's prospects for winning another term in the White House are very good indeed. Examining the relationship more closely, however, we find that the advantage of incumbency is mediated by fiscal policy. Measuring it by FPRIME yields the following pattern: In the 22 times that a president has sought reelection, 10 times he pursued a contractionary policy and 12 times an expansionary policy. Ninety percent of the former cases (9 out of 10) resulted in re-election, but only 7 out of 12 (58%) of the latter did. Using FISCAL as our measure, 13 times a president pursued a cutback policy, and in all but two of those (85%) he won reelection, whereas only in the aforementioned five times (out of nine, or 55%) did an expansive policy yield a another term in the White House. Because he has pursued an expansionary/expansive fiscal policy, judging by the pace of federal spending alone President Obama's prospects are less rosy than those of the typical president seeking reelection: somewhere between 0.55 and 0.58.¹¹

As noted earlier, however, fiscal policy is by no means the only determinant of presidential election outcomes. Economic performance, party identification, and length of party reign all have an effect. At this time, the economy is the only question mark. But taking Fair's most recent (July 27) forecasts for GROWTH and ALLNEWS, 1.62% and 1, respectively, the Fiscal Model forecasts for Obama's share of the two-party vote, obtained by estimating both versions shown in Table 1 over the short period, the one Fair uses to make his forecasts, is 46.9% with FPRIME and 45.5% with FISCAL. The probability

that he will win more than 50% is 0.11 and 0.05, respectively. In other words, at this point, several months before the election, the Fiscal Model predicts Obama to lose the two-party vote by about the same margin as he won it in 2008. Even if he does squeeze by the Republican candidate, it is highly likely that President Obama would do so with a smaller share the vote than in 2008, the first president in well over a century to be reelected to a second term by a thinner margin of victory than he received the first time around.

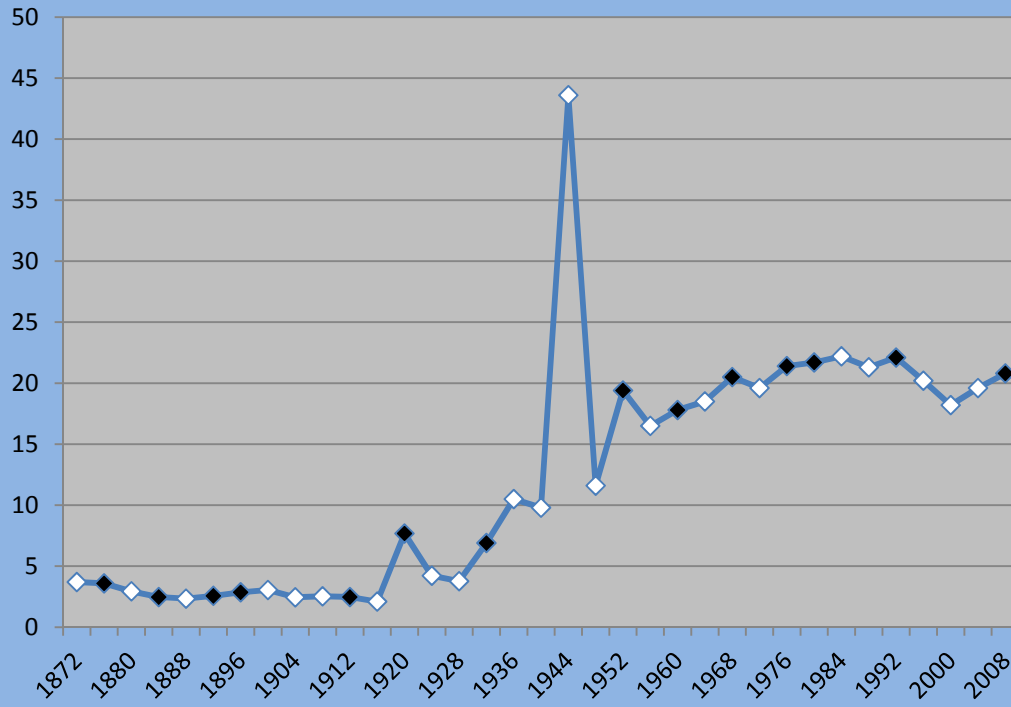
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Table 1
The Fiscal Model: Two Versions, Two Periods
(*t*-statistics in parenthesis)

Predictor	Dependent Variable: VOTE2 (Incumbent share of two-party vote)			
	1880–2008 (the long period)		1916–2008 (the short period)	
FISCAL	-1.92 (-2.96)		-2.03 (-4.41)	
FPRIME		-2.28 (-3.74)		-2.05 (-4.85)
GROWTH	0.52 (4.28)	0.49 (4.25)	0.72 (8.51)	0.67 (8.36)
ALLNEWS	0.77 (3.18)	0.79 (3.49)	0.93 (5.73)	0.89 (5.81)
DURATION	-3.33 (-3.42)	-3.89 (-4.25)	-3.54 (-4.50)	-4.13 (-5.77)
PARTY	-1.78 (-2.69)	-1.75 (-2.84)	-2.45 (-5.17)	-2.17 (-4.88)
INTERCEPT	49.06 (28.94)	49.86 (32.15)	47.89 (40.84)	49.10 (45.88)
SEE	3.62	3.38	2.10	1.99
Adj. R ²	0.65	0.69	0.90	0.91
D.W.	2.1	1.75	1.59	1.65
N	33	33	24	24

Figure 1. F and VOTE2, 1872-2008



<heading> NOTES

¹ Available at <http://uwf.edu/govt/documents/Cuzan-2009-Will%20Barack%20Obama%20Be%20a%20One-Term%20President-tcsdaily.pdf>.

² For a similar reason, in October 2005, three years before the Wall Street meltdown, I had questioned the Republicans' chances in 2008. See "Don't Bet the Ranch on the Republicans Retaining the White House," available at http://uwf.edu/govt/facultyforums/documents/Dontbettheranch_001.pdf.

³ The White House. Office of Management and Budget. The Budget. Historical Tables. Table 1.2. <http://www.whitehouse.gov/omb/budget/Historicals/>. Downloaded 3-11-2012.

⁴ All data analyzed herein are available in a longer version of this paper presented at the APSA in September, posted on the author's publications website and at SSRN.com.

⁵ Alan Lichtman does not score President Obama as charismatic in his "Keys to the White House" model. As he puts it, "Obama has not regained the magic of his campaign, and now falls short of gaining the Incumbent Charisma/hero Key 12," (Lichtman 2010, 36).

⁶ 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, and so forth. See Cuzán and Bundrick (2004).

⁷ If both derivatives equal zero, this indicates a steady-state policy. There is no such case in the data.

⁸ The reader of previous articles on the Fiscal Model (e.g., Cuzán and Bundrick 2008, Cuzán, Heggen and Bundrick, 2009), will note a change in labels in describing fiscal policy with the alternative variables. The revision is done for the sake of symmetry in nomenclature.

⁹ It is often asked whether the relation between fiscal policy and the vote may be spurious, the result of their both being related to the economy. When the economy contracts, so goes the argument, federal counter-cyclical policy responds by spending more. Yet, the evidence does not support that explanation. There is no statistically significant correlation between the economic and the fiscal measures, except two, and they are both *positive*: GROWTH and F ($r=0.34$) and ALLNEWS and F1 ($r=0.36$). This may be accounted for by the fact that a growing economy generates more revenues for the federal government, stimulating greater spending.

¹⁰ 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.

¹¹ Interestingly, at the time of this writing (August 1, 2012), Intrade.com puts

Obama's chances for reelection at 57.7%.