It's the Economy, Maybe: Economists Predict Presidential Winner
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Every four years, political-economic forecasters have their moment in the sun. Mostly economists by training, these analysts use statistical models to predict the winner of the presidential election on the basis of economic conditions. They collect economic data from past election years and they record who won those elections. Then they look at how the economy is doing during the current election year and make their predictions accordingly. This year, the models are predicting a Bush win in November.

The logic of these models is pretty simple. Happy voters tend to be pleased with whoever is president, and so when the economy is doing well, the incumbent president (or his party) tends to retain the White House. When the economy is tanking, the opposite tends to happen.

The reality has turned out to be a little more complicated than that. In 1992, the national economy appeared to be pulling out of recession in time to give George H.W. Bush the economic oomph needed to win reelection. But instead he lost to challenger Bill Clinton. Some argued that the relatively slow recovery in the job market (sound familiar?) is what undid the chances of the first President Bush.

Years later, the analysts at what is now Economy.com found an explanation for the failed prediction in 1992. They argued that the wrong kind of model had been used. They noted that the recovery from the 1990-91 recession was uneven, with some states doing quite well and others not so well. Even though things looked pretty good on the national level, there were enough states with weak economies and big blocks of electoral votes that accounting for economic conditions on a state-by-state basis should have pointed to a Clinton win.

In 2000, Economy.com unveiled a new state-by-state model that not only would have predicted Clinton as the winner in 1992, it would have predicted the winners of all presidential elections since 1976. The fancy new model was unleashed on the 2000 election between Al Gore and George W. Bush.

But then reality bit again. The state-by-state model (as well as most other models) predicted a landslide win by Gore. As Election Day neared, it was obvious to everyone that the election would be incredibly close. It was so close that many expected the opposite of what actually happened. The Electoral College scandal on most people's minds in October 2000 was the distinct possibility that Bush would win the popular vote but lose the electoral vote!

The failure of the Economy.com model in 2000 highlights the limitations of these predictive models. They do a good job of identifying the economic factors in presidential elections, because of course voters' pocketbooks do matter. For some voters the pocketbook is all that matters. But it's equally clear that other things matter as well. In 2000, the shadows of Bill Clinton and Monica Lewinsky loomed large over the election and especially over the Gore campaign, and no good news about the economy could remove those shadows.

And that brings us to the current race between George W. Bush and John Kerry. As in 2000, the opinion polls have been all over the board, and most political analysts are expecting a close election that goes down to the wire in November. But this time, the political-economic models seem to agree, more or less.

In August, Economy.com's retooled model predicted that Bush will win 53.7 percent of the vote, which is hardly a landslide. But the model's state-by-state breakdown leads it to predict that Bush will garner 373 electoral votes, well more than the 270 needed to win. However, more recent comments by Economy.com analysts suggest that the gap is narrowing.

Ray Fair, the Yale economist best known for this kind of predictive work, has Bush doing significantly better in the popular vote, winning 57.5 percent. But other models come closer to Economy.com's popular-vote prediction. So far, no economic model of which I'm aware has predicted that Kerry will win.

It's curious that the economic models are so consistent in predicting a Bush win, because the economy is hardly in wonderful shape by all measures. It's true that growth in gross domestic product (GDP) was strong in 2003 and the first half of 2004. Tellingly, the Fair model that predicts the high-end figure for Bush's popular vote focuses on GDP growth as the most important economic factor.

But employment is another story. The outplacement firm Challenger, Gray and Christmas points out that in 10 of the last 14 elections, the challenger won when unemployment averaged above 5.6 percent in the months leading up to November. By that measure, it's good news for Bush that the unemployment rate dropped to a seasonally adjusted 5.4 percent in August. But that's a thin margin, and we'll see what the September number looks like.

Unemployment rates are falling, but total employment, both locally and nationally, has yet to get back to the pre-recession levels of early 2001. In fact, it's quite likely that Bush will end up being the first president since Herbert Hoover to preside over a four-year term in which the total number of jobs actually falls. And yet this is missed by models that use unemployment *rates* as predictors. The lead economist for the consulting firm Global Insight, which predicts a 56 percent popular vote for Bush, has acknowledged that his company's prediction might be wrong for this reason.

Unemployment rates fail to capture the phenomena of discouraged workers (who quit looking for work and are no longer counted as unemployed) and under-employed workers (who hold jobs less desirable than their skills and experience warrant). These phenomena are always present, but some studies are indicating that they are more significant this year than in the past.

And of course the usual array of non-economic "intangibles" is at work in the 2004 election, from Iraq and terrorism to mudslinging about who did what during the Vietnam era. In 2000, the intangibles trumped the economy. They may do so again.

Four years ago, I wrote in this space that the predictions of a Gore landslide implied one of two things. Either Bush was running a masterful political campaign, or Gore was squandering one of the greatest natural political advantages ever. At the time, I leaned toward the latter explanation. But if Bush wins in 2004 after matching Herbert Hoover for job losses, then we may have to give him credit for his political skills after all.