

FORECASTING THE 2012 PRESIDENTIAL ELECTION WITH THE FISCAL MODEL:

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The fiscal model of American presidential elections, which borrows or adapts four of its six variables from Ray Fair's eight-variable [Presidential Vote Share Equation](#), is represented as follows:

$$\text{VOTE2} = A + b_1(\text{GROWTH}) + b_2(\text{ALLNEWS}) + b_3(\text{DURATION}) + b_4(\text{PARTY}) + b_5(\text{FISCAL or FPRIME}) + e, \text{ where}$$

VOTE2 = incumbent share of the two-party presidential vote (adapted from Fair's V^p , the "Democratic share of the two-party presidential vote");

GROWTH (G in Fair's equation) = "growth rate of real per capita GDP in the first three quarters of the [presidential] election year (annual rate)";

ALLNEWS (z) = the "number of quarters in the first 15 quarters of the administration in which the growth rate of real per capita GDP is greater than 3.2," except that Fair zeroes out this variable in 1920, 1944, and 1948, whereas in the fiscal model the actual values are entered;

DURATION (DUR) = 0 if the incumbent party has been in the White House for one term, 1 if two terms, 1.25 if three, 1.5 if four, and so on;

PARTY = 1 if the incumbent is a Democrat, -1 if a Republican;

FISCAL or FPRIME (explained below) = 1 if expansionary or expansive and -1 if cutback or contractionary;

A is a constant (intercept), b1-b5 are coefficients, and e is an error term.

The fifth predictor, 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](#)). As noted above, we have two metrics for fiscal policy, FISCAL and FPRIME. 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 2008 they took opposite signs. In 2012, however, both are equal to 1. That is a given, as are PARTY (Democrat=1) and DURATION (first term=0).

So, to forecast the outcome of next year's presidential election, all that remains is to enter into the fiscal model the values of GROWTH and ALLNEWS. [Fair's October 30, 2011 forecast](#) is as follows: $g=2.75\%$, $z=1$. This "is somewhat less optimistic about future output growth than was the July 31, 2011 forecast" (3.64% and 4, respectively). Plugging Fair's current values for GROWTH and ALLNEWS into each of the two versions of the fiscal model, I get $VOTE_2=47.7\%$ using FPRIME and $VOTE_2=45.5\%$ using FISCAL. Either way, the result is a Republican victory.