Who's Going to Win? Look at the Economy

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Article:

On Tuesday, American voters will decide whether Barack Obama or John McCain will be the next president. Which issues will guide their votes? Voter motivations are complicated, but pocketbook issues are always part of the mix. In some years the economy isn't the most important factor, but in this year of financial crisis and imminent recession, the economy obviously looms large in voters' minds.

This year, as in 2000 and 2004, Moody's Economy.com ran a statistical election-prediction model. The model takes into account economic factors and uses them to predict the outcome of the presidential election. The basic idea is simple: When the economy is strong, the incumbent party tends to win.

The Economy.com model looks at state-level economic indicators, because what matters in our electoral system is the Electoral College. The popular vote confers bragging rights but little else (just ask Al Gore).

The state-by-state method has been acknowledged as the right approach since the 1992 election, when national economic indicators had turned positive and appeared to point to a win by the incumbent, George H.W. Bush. But the economic recovery was stalled in enough electoral vote-rich states that a state-by-state model would have correctly predicted a win by the challenger, Bill Clinton.

For the most part, the prediction model focuses on economic indicators, especially the unemployment rate (both its level and its changes in the months preceding the election). The model doesn't factor in foreign policy or individual personalities. It does, however, factor in "incumbent fatigue" and how each state voted four years earlier. After all, the economy would have to be really bad to induce Utah to vote for a Democrat.

In 2000, the economy was so strong that the model predicted a landslide by the candidate of the incumbent party, Al Gore. The Economy.com analysts didn't really believe that Gore would win handily, because the race was overshadowed by a big personality issue (Clinton's infidelity and impeachment). Opinion polls were a better indicator that year, and they correctly predicted a close contest.

At the time (a few days before the 2000 election), I noted in a newspaper column that the expected closeness of the race, combined with the Economy.com prediction, implied one of two things: "Either Bush has run a masterful presidential campaign, or Gore has squandered one of the greatest natural political advantages in recent memory." Maybe it was both.

In 2004, the economy had begun to recover, albeit weakly, from the 2001 recession. The election was largely about Iraq and terrorism, but the Economy.com model kept its focus on the economy. It predicted a narrow popular-vote win by the incumbent, George W. Bush, which turned out to be right. But its main prediction was that Bush would win 373-165 in the Electoral College, and the actual electoral vote turned out to be much closer than that.

What does the model say about Tuesday? Not surprisingly, it confirms the conventional wisdom that the rapidly weakening economy presents a great problem for John McCain, the candidate of the incumbent party. The model predicts that Barack Obama will win 33 states and 388 electoral votes.

It also predicts a narrow victory for Obama in North Carolina, after calling the state for Bush in 2000 and 2004. To be sure, the model's failure in 2000 and semi-failure in 2004 might make us skeptical of its prediction this year. But polls are indicating that the economy is by far the biggest issue for voters. This might be the election that the Economy.com model gets it entirely right.

We'll know for sure on Tuesday night.