

# Midterm elections

Back in the summer, many pundits predicted that the Democrats would win enough seats in the upcoming election to retain their majority in the House of Representatives. On the surface, their predictions seemed reasonable. The Supreme Court had just overturned *Roe v. Wade*. This decision angered many women, and the pundits believed that these angry women would overwhelmingly support the Democrats running for office. As we moved into the fall, a great victory for the Democrats seemed less certain. Most recent polls, including one by the New York Times, suggest that

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Republicans will win enough seats to become the majority party in the House.

So, what happened? I suspect the optimism among those rooting for the Democrats was little more than wishful thinking. It was probably inevitable that the economy would be the most important issue determining the election results. Most likely, voters will treat the House elections as a referendum on the President's management of the economy. My own research, coauthored with Kevin Grier, can inform how much weight voters give to economic conditions when they cast their ballots.

Our research focused on how accountable incumbent members of the President's party are for economic fluctuations. Our research is relevant today since in order for the Democrats to retain their majority in the House, their incumbents must have success at the polls.

In our paper, we estimated a model that explained as much as 60 percent of the variation in the electoral fortunes of presidential party House incumbents. Our model included various measures of the economy's performance as well as a few other variables that described the political environment during the elections. These political environment variables accounted for the effect of redistricting and whether the election was a midterm or presidential election. In a separate research article, building on the aforementioned model, I found that voters also punish House incumbents in the president's party when leading economic indicators suggest that the economy will see a downturn in the future.

By one measure, the economy is doing well. The September unemployment rate was 3.5 percent, which is low by historical standards. But by every other measure, the economy is doing poorly. Most obviously, the inflation rate is 8.2 percent. Keep in mind that the Federal Reserve has a goal of keeping the inflation rate at 2 percent. So by the Federal Reserve's own standard, the inflation rate is more than 6 percentage points too high. The last time inflation was anywhere near as high was back in the 1980s. The inflation rate was 6.2 percent in 1982 (down from 10.3 percent a year earlier). In 1982, the House elections did not go well for the President's party. It lost 26 seats. But this loss was not only due to high inflation rates. The unemployment rate in 1982 was 10.8 percent, and it is low today, so the 1982 election results are not a perfect guide for what we can expect this year.

But while the low unemployment rate is good news for Democrats, there is plenty of other bad news. First, per-capita-inflation-adjusted-after-tax personal income was lower in August than it was in January. Quite obviously, voters are worse off when their disposable incomes decline. Second, the stock market is down this year. At the time I wrote this column, the S&P index was down 22 percent for the year. This is more bad news for voters. A person with a million dollars in a retirement account, designed to track the S&P 500 index, would have lost \$220,000 – ouch! Furthermore, the decline in the stock market signals that people expect bad times ahead. The stock market is a leading economic indicator since when people think the economy will tank, they will realize that firms will probably earn less profit, making these firms less valuable to investors, who become willing to pay less for shares of stock, driving the stocks' prices down.

Unfortunately for Democrats, voters mostly care about the economy ... and the economy's performance overall has been poor. While 40 percent of the variation in the election results of presidential party House incumbents are caused by variables outside of the simple Grier-McGarrity model, it is unreasonable to expect that Democrats will have an advantage on all of these non-economic issues. Yes, the abortion issue will probably help Democrats, but crime and an unruly border surely will favor Republicans. The combination of a poor economy and some non-economic issues that favor Republicans will keep a Democrat (such as Nancy Pelosi) from holding the Speaker's gavel in the next Congress.