The economy and Trump's re-election chances - Log Cabin Democrat (Conway, AR) - March 6, 2020 - page 1

March 6, 2020 | Log Cabin Democrat (Conway, AR) | JOE MCGARRITY Economics professor

When James Carville was the political director of Bill Clinton's first presidential campaign, he deftly characterized the message that he wanted everyone in the campaign to be talking about when he said "It's the economy stupid." Carville's words have crystalized the conventional wisdom that an incumbent president's reelection chances depend on the economy's performance. During good economic times, the president is usually reelected and during bad economic times, the president risks defeat.

Today, many pundits still believe this conventional wisdom, and they think that Trump has a very good chance of being reelected. After all, in 2019 the country experienced atypically good economic times. The unemployment rate is lower than it has been in decades. The inflation rate is lower than normal and GDP growth was respectable. The stock market's performance was even more impressive. The Standard and Poor's 500 Index increased by 30 percent in 2019. It seems clear that if voters treat presidential reelection campaigns as referendums on the president's ability to manage the economy, Trump is a shoo-in for reelection.

However, the academic literature tells a different story. Nobel Laureate George Stigler argued that voters should consider the economy's performance for the two years since the midterm election when allocating accountability for the economy's management at the polls. While Stigler seems to have had uncanny insight in most of his research endeavors, in this case the scholarly literature has reached a consensus that is at odds with Stigler's view. Scholars generally believe that voters do consider the election as a referendum, but that these voters only consider the economy's performance in the year of the election.

To date, as far as the economy goes, 2020 is off to a rough start. The stock market has dropped in value.
Economists are not good at predicting what will happen to the stock market, but I feel pretty confident that 2020 will not see another 30 percent increase in the S&P Index. Further, given the above normal returns that we saw last year, a stock market correction is probably likely, leaving voters to look at a negative return on their assets rather than last year's robust return. Additionally, the coronavirus is disrupting the supply chain of many companies. As the virus spreads, the global supply chain will face several bottlenecks, which will decrease the output companies can produce. International tourism will decline. Chinese students who would like to come to the U.S. to study may not have the opportunity. The risk posed by the virus may cause some companies to put off investments until they have a better idea of how the virus will impact their industries. In short, there are many events on the horizon that suggest that 2020 will not be considered a year of good economic performance.

While Donald Trump's reelection chances look good if voters considered the economy's performance in 2019, he is not so lucky. Voters will consider economic conditions in 2020 when they vote, which may spell trouble for Trump given all of the bad economic news that seems likely to come this year.