

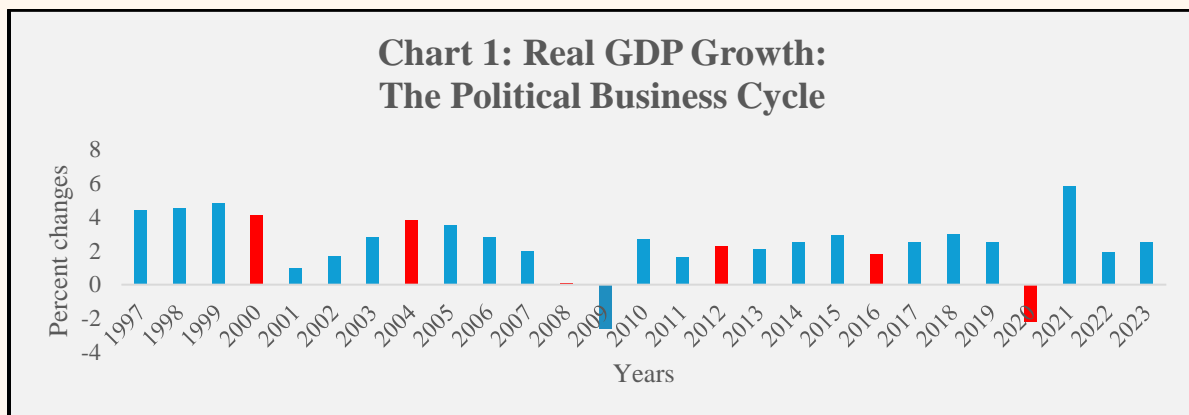


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“The PBC and You”

What is the PBC?

Economist and 2018 Nobel Laureate William Nordhaus is an early theorizer about the **political business cycle (PBC)**, which he concluded arises because “voters care about the economy and politicians care about power.”¹ The notion is that politicians will act to ensure favorable conditions (especially economic conditions) leading up to elections to gain reelection, or to support fellow party members in winning an election. Chart 1 is a shortcut method for assessing the theory.



Sources: US Bureau of Economic Analysis and BlackEconomics.org visualization.

Chart 1 presents annual estimates of real gross domestic product (GDP) growth. GDP is a comprehensive measure of economic activity. The Chart covers the years 1997-2023. Presidential election years appear as **red** bars. Close inspection of the chart reveals that: (i) For 2000, Pres. Bill Clinton set up Al Gore well, but “maybe the election was stolen;” (ii) Pres. Bush II set himself up well for reelection in 2004, but ended his second term during the 2008/9 Great Recession, which was bad news for John McCain, but good news for Pres. Barack Obama (2008 GDP growth was 0.1%—so small that it is invisible on the chart); (iii) Pres. Obama saw solid growth in 2012, which helped return him for four more years; (iv) Obama set up Hillary Clinton with positive but slow growth, which was not enough to prevent former Pres. Donald Trump from taking the White House; and (v) The 2020 downturn contributed to Trump’s departure and Pres. Joe Biden’s rise.

¹See William Nordhaus (1975), “The Political Business Cycle,” *The Review of Economic Studies*, Vol 42, No. 2; pp. 169-90. The quote is from in Nordhaus (1989), “Alternative Approaches to the Political Business Cycle,” *Brooking Papers on Economic Activity*: Vol. 1989, No. 2; pp. 1-68.

These results reveal that incumbents who ensure reasonable GDP growth during election years for their second term win every time (Bush II and Obama). Conversely, if an incumbent president ends his first or second term with an economy that does not reflect reasonable growth, then the seat flips to the competing party (Bush in 2008 and Trump in 2020). A growing economy leading up to the 2016 election is associated with the Clinton loss and signals that there may be a growth threshold that must be exceeded if an incumbent party is to prevail.

What is important about the current PBC?

The 2024 election is marked by a popular former president seeking a return to power, while the incumbent seeks to hold on to power. Given the first reading for the first quarter of 2024 (1.6% growth), GDP is at its weakest growth rate for any presidential election year that reflected positive growth during the period covered by Chart 1 (we ignore 2008 because GDP growth was 0.1%—near zero growth). Importantly, GDP growth for 2016 was 1.8%. This history may infer that if GDP growth does not tick up by November, then we may be making America great again, again starting in 2025.

What to expect next?

BlackEconomics.org does not prepare economic forecasts, and certainly not political forecasts. Therefore, there is no attempt here to predict outcomes for the 2024 election. However, in the interest of the sanctity and reputation of certain institutions and organizations, the following is recommended.

- The Federal Reserve Board (FED) appeared to pander to the market with an unexpected decision to pause interest rate increases in December 2023 when inflation was still well above its 2.0% target. That pause stimulated continued strong advancement of share markets and helped ensure the resumption of positive share market returns for the year; the three major stock indexes (NYSE, NASDAQ, and S&P 500) were down for 2022.² Consequently, the FED could reduce its future credibility significantly if its actions appear to pander to Democrats. In other words, the FED should not cut interest rates before the November election, unless real economy and price statistics send a clear signal that such action is in order. Similarly, a decision to raise interest rates even if there is a slight uptick in inflation, would send a pro-Republican Party signal.
- The Black members of the FED's Open Market Committee (FOMC) should be overly cautious concerning how they vote in this politically charged season. A decision to move one way or the other should be buttressed by crystal clear and obvious evidence. Otherwise, a misstep could result in a decades-long exclusion of Black economists from participation in the FOMC.

² The FED's announcement came on December 13, 2023 when annual inflation measured by the Bureau of Labor Statistics' Consumer Price Index for November 2023 (released on December 12, 2023) stood at 3.14%. According to the FED's preferred inflation measure available on December 13 from the Bureau of Economic Analysis, the November 2023 year-over-year change in the Price Index for Personal Consumption Expenditures was 2.7%. Also, at the close on December 13, 2023, the New York Stock Exchange (NYSE) Composite closed at 16,560.7, up 1.69% over the previous day's close. The NYSE Composite closed up seven of the remaining 11 business days of 2023. It closed at 16,852.9 on December 29, 2023; up 540 points from its December 12th close of 16,285.9, and up 1,669 points from its December 30, 2022 close of 15,184.3.

- To make concrete and real former Pres. Donald Trump’s court cases and to clarify that they are not just drama to entertain the American people and the world, it seems logical that the Republic Party would scare up another candidate for the November election immediately. To not identify a stand-in now for the election is to signal that the US criminal justice system is absent the power to convict a former president who is somewhat wealthy and very popular. (This might not have immediate implications, but future implications could be quite weighty.) It is nearly June 2024 with the election less than six months away. If, for any reasons, former Pres. Trump cannot stand for the election and the Republican Party cannot raise a reasonable facsimile of a candidate to oppose Pres. Biden, then that alone is reason for the heart of the Republic Party to cry foul and incite chaos and violence across the nation under the rallying cry: “We had no opportunity to be represented.” Given all the other variables in our small geopolitical and economic world, lack of representation in a presidential election could spark the onset of a dismantling of the US as it is known today.

Can you leverage the PBC to optimize your wellbeing?

Given the foregoing, it seems fairly predictable that policymakers may adopt a “make no decisions” posture until after the November election. Consequently, whether current conditions are favorable or unfavorable, you should expect them to prevail until late 2024 or until 2025. The question is: What should be expected thereafter?

Both political parties have generated the strongest presidential term economic growth during the first two years of terms over the period covered by Chart 1. Also, the current economic expansion commenced during the third quarter of 2022, placing the economy far shy of the average duration of recent US economic expansions.³ However, if business is emboldened by the nearly one-year-long pause in interest (the Fed Funds Rate) rate hikes and if inflation persists above the target, then look for the FED to tighten screws to wring inflation out of the economy after 2025 is underway. An important potential counterweight to the latter decision is that net interest payments surge in response to interest rate hikes. Finally, a widening of the two well-known and ongoing wars (Russia-Ukraine and Israel-Hamas) could produce an extension of the economic expansion with inflation rates remaining well above the FED’s 2.0% target.⁴

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³ From the endpoint of the 1990 US Recession and up to the first quarter of 2024, a rough estimate of the average duration of US economic expansions (from trough to peak) is about 19 calendar year quarters.

⁴ Interestingly, we discuss this outcome in Brooks Robinson (2022), “Welcome to More Misery,” BlackEconomics.org; <https://www.blackeconomics.org/BELit/wmm.pdf> (Ret. 050924).