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Why wait for election returns when economists can forecast the next president right now?

Justin Wolfers has been diligently monitoring political futures markets like Intrade and BetFair for WSJ.com this year. (He'll be posting his observations on late futures-market movements and other topics in this blog tonight.) Wolfers, a professor at University of Pennsylvania's Wharton School, also knows a lot about econometric models for forecasting elections. I asked him to help us read the tea leaves of two such models.

Q: *So tell us a bit about* ***Ray Fair*** *and his model. He made something of a splash outside the academic world for projecting a Bush win in the summer of 2004. How did he get it right then?*

Justin Wolfers: Ray Fair is an eclectic and always interesting researcher who is particularly relevant today because he was the first economist to draw the link between the performance of the national economy and the re-election prospects of the incumbent.

Basically the model finds that incumbency effects, war, GDP growth and inflation all affect a candidate's likely vote share. All the complicated econometrics does is give appropriate weight to each of these factors.

The 2004 equation predicted a Bush victory, and so might be considered a success for the Fair equation. But actually, it predicted an enormous Bush victory, suggesting that he would win 57.7% of the two-party vote. Given how far that is from truth, I'm not sure that we would want to call that a success.

Q: *What does the Fair Model have to say about today's outcome?*

Wolfers: Fair's prediction is for the Republicans to win 48% of the vote and the Dems 52%. This largely reflects the fact that economic conditions are terrible, and the "political" variables (like an incumbent running for re-election) aren't really operative this time.

Q: *An updated version of Fair's formula can he seen here. Can you tell us how "GOODNEWS" makes sense as a legitimate quantifiable variable?*

Wolfers: "GOODNEWS" is the number of quarters of the first 15 quarters in which the per capita annualized GDP growth rate is greater than 3.2%. I'm not sure that I would take this particular variable particularly seriously, but instead, would emphasize the broader lesson — robust GDP growth helps get incumbents re-elected.

Indeed, as it has become clearer over recent weeks that current economic conditions are pretty terrible, people have become increasingly likely to bet that the Republicans will lose the ’08 race.

Q: *I know you’re a fan of Swedish economist* ***David Stromberg****‘s econometric model. (You’ve even [co-written a column]for WSJ.com with him.) How does his forecasting model differ from the Fair model? And what does Stromberg see in our electoral future tonight?*

Wolfers: [The Stromberg model]largely reflects the increasing sophistication of econometrics, and so it can deal more realistically with the world we live in. Rather than trying to forecast the aggregate vote share — which, as **Al Gore** can tell you, isn’t always so valuable — it tries to predict the outcomes state-by-state. For each state, outcomes are projected based on local economic conditions, ideological shifts in the character of the electorate, and both local and national polling data. This model is really more about predicting election outcomes than it is making the simpler point that Fair emphasized — that economic factors are important.

In many respects, Stromberg’s model is the forerunner to the extremely compelling poll aggregation being done by **Nate Silver** over at [FiveThirtyEight.com]. Stromberg uses fewer polls than FiveThirtyEight, but he takes account of more factors.

The key to both the Stromberg and FiveThirtyEight-style analyses is to focus on the likelihood that any particular state will be the pivotal state (like Florida in 2000 or Ohio in 2004). This turns out to be particularly powerful.

For instance, many people may be watching to see whether **Barack Obama** can cheekily pick up Arizona from right under **John McCain**‘s nose. Now while this is an interesting narrative, it is pretty much beside the point: It is almost impossible to see Arizona as the state that determines the election. If Obama wins Arizona, it will be part of a much larger sweep. As such, the polling in Arizona just isn’t that informative for the overall result, and this insight is critical to these “pivotal voter” approaches.

Right now, Stromberg gives Obama an [87% chance to win], while FiveThirtyEight is giving him a 96% chance. I would highlight these as complementary, rather than competing approaches.

Q: Do any of these models — or any others in the academic world — have a particularly sterling track record? Have real world election practitioners (i.e. candidates and the campaign operatives who advise them) made use of the insights these models offer?

Unfortunately, we only get a new datapoint every four years. Even the Fair model, which has been around since the late 1970s, has only been tested seven times. While it has performed pretty well, it is hard to figure out good luck from good judgment. The newer models — like the Stromberg model, or FiveThirtyEight — have never really been tested. But they sure make a lot of sense and are built from sensible fundamentals, which is why I think they are worth paying attention to.

The important thing about the newer models is that they actually provide directly relevant advice to campaigns. Remember, political campaigns aren't trying to maximize their expected vote share, but rather they are trying to maximize the chances that they win. And this means identifying precisely which state or states they need to win and funneling all of their resources there, while ignoring the rest of the country.

In fact, you can take these sorts of predictions, and use them to project how the campaigns should plan their visits to different states. The forecasts — that they should spend a lot of time in Florida, Ohio, Pennsylvania — look about right. Interestingly, the model suggests that McCain is right to be focusing on Pennsylvania, but that he was wrong to pull out of Michigan so early.

Now this doesn't tell us that the campaigns are directly using the Stromberg model, but it does tell us that the logic they are using to figure out how to spend campaign resources uses a very similar logic. In fact, we can see this directly, by reading "The Race to 270," a very interesting campaign narrative by **Darren Shaw**, who was one of the number-crunchers working on the last two Bush campaigns.