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NBER conference on Inflation, for a special volume in the Journal of Monetary Economics. Larry Ball, Yuriy Gorodnichenko organizers.

Proposal for "On the political economy of inflation and real wages: Inflation and pocketbook voting in US elections"

This proposal focuses on furthering our understanding of the role of inflation and real wages in voting. Specifically, it does so from the perspective of empirical models of political behavior.

While modern political economy has focused on the electoral role of inflation and wages at least since the political business cycle contributions of Alesina (1986, 1992) and pocketbook models of voting (e.g. Peltzman, 1984; Lewis-Beck 1985), the aggregate nature of price changes of tradable goods and the lack of granular geographic data on inflation has made empirical research on its role in driving votes hard to establish.

Survey evidence based on large representative surveys like ANES has shown descriptive associations, while survey experiments based on inflation priming have shown suggestive indication of inflation reducing support for incumbents (for the 2024 US presidential election see Steinberg, McDowell, Aytac, 2024). Yet survey experiments and ephemeral lab priming cannot be considered direct and externally valid evidence of voter response to inflation, price levels or real wage changes – criticisms have been levied on these approaches since Sears and Lau (1983) and Lewis-Beck (1985).

The first part of my proposal focuses on a comprehensive review of this literature. This is in order to capture as much as possible of the state of the political economy literature on inflation and to make it readily accessible to macroeconomists.

In the second part of my article, I plan on using the class of additive separable estimators for voter demand developed by Kendall et al. (2015); Cruz et al. (2024); de Albuquerque et al. (2025) for an empirical application using zip code-level inflation and wage data in the 2024 US presidential election. Much discussion has ensued the role of price levels and electoral outcomes in the aftermath of the re-election of President Trump (e.g. https://www.nytimes.com/2024/11/08/briefing/how-inflation-shaped-voting.html). This discussion has focused on the economy being a main driver for Republican vote shares,

sometimes with reference to prices of specific consumption goods (e.g. a carton of eggs). I plan on using micro-geographic inflation data collected by the firm Datasembly. According to sales material, “Datasembly’s Grocery Price Index measures weekly changes in pricing for grocery products using data collected from over 150,000 stores and over 200 retail banners that span over 30,000 zip codes across the United States.” Ideally, I would like to access this information in conjunction with data on nominal or real wages, with the ultimate goal of assessing the relative weight of inflation and real wages in explaining zip code vote shares (for example, their explanatory power vis-à-vis standard voter demand drivers). While tentative and possibly not as well statistically identified as laboratory experiments (shift-share IV’s appear reasonable as an approach), this analysis has the advantage of providing direct evidence on the electoral correlates of inflation and real wages. At the minimum, I intend to present a list of stylized facts pertinent to a recent election when, according to much of the press, “economic voting” displayed a comeback.