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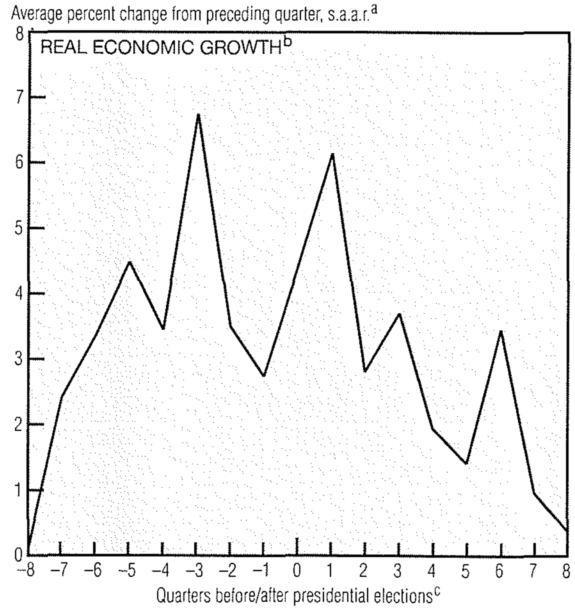
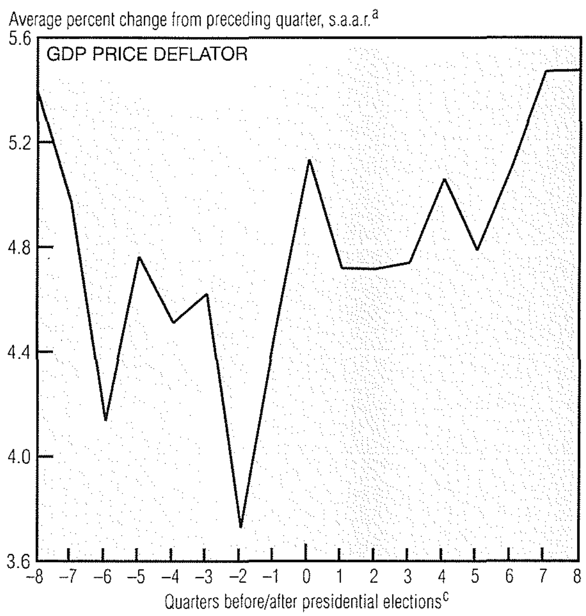
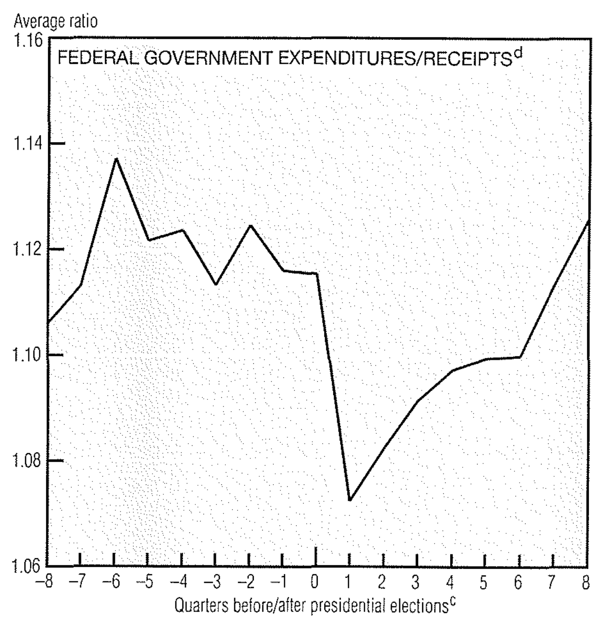
Political Business Cycles

Real Growth and Elections

Election year	Real growth[a,b] Years prior to election: 1 year	2 years	Presidential incumbent's party	Majority congressional party
1964	5.2	5.2	Win	Win
1968	4.9	3.7	Loss	Win
1972	7.2	5.7	Win	Win
1976	4.7	3.5	Loss	Win
1980	0.0	0.6	Loss	Win
1984	5.2	6.1	Win	Win
1988	3.5	3.8	Win	Win
1992	3.7	2.0	Loss	Win







a. Seasonally adjusted annual rate.
b. Chain-weighted data in 1992 dollars.
c. Includes all presidential elections since, but not including, 1960.
d. Ratio of expenditures to receipts; seasonally adjusted data.
SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis; Bureau of the Census, *Statistical Abstract of the United States: 1995,* table 436; and *The World Almanac and Book of Facts: 1995,* Mahwah, N.J.: Funk & Wagnalls.

The 1980 returns exemplify how the state of the economy before a presidential election can affect an incumbent's ability to stay in office. Moreover, at times presidents might attempt to use their fiscal prerogatives to court reluctant constituencies or to win highly contested regions of the country. These two observations, however, do not readily translate into a political theory of business cycles, as some analysts have alleged.

Rationales for a political business cycle have existed at least since Marx and encompass many variations. The simplest modern version of the theory argues that an incumbent president will use expansionary fiscal policies and exert pressure on the Federal Reserve to pump up the economy prior to an election. Then, once secure in office, the administration will act to cool down the overheated economy that it has theoretically created.

One strongly predisposed toward a political view of the world might point to the pattern of GDP and fiscal policy, but the theory requires several questionable assumptions about voters and policymakers. As an explanation for economic fluctuations, it requires that citizens have short memories and base their expectations solely on their immediate experiences. It does not consider that rational voters will understand the relationship between elections and economic activity, thereby negating the strategy's political usefulness. In addition, the theory of a political business cycle credits policymakers with greater ability to micromanage the economy than experience warrants.