

# The Federal Reserve and the 2024 Presidential Election

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February 28, 2023

The economy has an effect on U.S. presidential elections. When inflation is low and output growth is high, this increases votes for the incumbent party. And vice versa. Voters tend to praise or blame the party in the White House for the state of the economy. Of particular importance from my work on explaining voting behavior is the rate of growth of output in the three quarters before the election.

At the moment there is considerable uncertainty as to how much more the Federal Reserve (the “Fed”) has to do to get inflation back down to 2 percent, its stated goal. An optimistic story is that the Fed will raise interest rates a little more, thus contracting the economy some, but by the end of 2023 inflation will be back near 2 percent and the Fed can ease off. This is a positive story for the Democrats retaining control of the White House in 2024. Going into 2024 inflation will have been licked and output growth will have started to pick up. By November 2024 the economy will have been growing for three quarters and inflation will be under control.

A pessimistic story is that inflation will not go gently and the Fed will have to keep interest rates high and possibly rising into 2024. Inflation might still be

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higher than the Fed wants in the summer of 2024 and the Fed will still be tightening or at least not easing off. Output growth in 2024 might be sluggish because of the Fed's tightening. This is, of course, negative for the Democrats: high inflation and low growth.

I can use my work that analyzes votes for president back to 1916 to see how big these effects might be. They are large. In the positive case for the Democrats, if inflation is 3 percent in 2023 and 2 percent in 2024 and if output growth is 4 percent in 2024 before the election, the predicted Democratic two-party vote share for president is 54.8 percent, a Democratic victory. In the negative case for the Democrats, if inflation is 5 percent in 2023 and 4 percent in 2024 and if output growth is -2 percent, the predicted Democratic two-party vote share is 47.3 percent, a Democratic loss. Somewhere in between regarding the economy will mean a close election.

This is not to say that the Fed is political. The Fed's main goal at the moment is to get inflation down to 2 percent, not to help one political party. But the political consequences of its actions are huge. In the next 20 months the media will be dominated by stories about political candidates, debates, poll results, campaign spending issues, and the like (a U.S. pastime), but behind the scenes is what really matters, namely how successful will the Fed be?