Consumption Theory and Why Any GOP Candidate, Including J.D. Vance, Would Have Won the 2024 Election: Comment and Update to the Original Paper of 2016 ("Economics and How Obama Could Have Lost the 2016 Election Too")

Wu, Cheng

2024

Consumption Theory and Why Any GOP Candidate, Including J.D. Vance, Would Have Won the 2024 Election: Comment and Update to the Original Paper of 2016 (“Economics and How Obama Could Have Lost the 2016 Election Too”)

Cheng K. Wu

Abstract

Consumption theory and its optimization mechanism may be applied to the U.S. presidential elections. Based on Clower’s Dual-Decision Hypothesis (DDH), Wu (2017) derived the result showing change in savings is a function of labor income growth. Under DDH, consumers make optimal decision based on a set of data, including labor income. Later, if they were to realize that these assumptions, specifically labor income growth were lower, further optimization is done with proper adjustments. Thus, we have a feedback optimization every four years, which may affect the “consumption” of a presidential election.

Current U.S. presidential electoral system is biased towards farm voters. Most “red” states and battleground states have substantial number of voters related to farm business. As farm income fell, it should not be a surprise that Hillary Clinton lost in 2016, Biden won in 2020 and Kamala Harris lost in 2024. In other words, Trump was beneficiary of farm income decline prior to the years 2016 and 2024 but not in 2020.

To extend the original paper of 2016, **“**Economics and How Obama Could Have Lost the 2016 Election Too.” A chart with farm income all the way back to Kennedy in 1959 was added. During these 17 presidential elections and 65 years of income data, only Johnson in 1964 and Clinton II in 1996 failed the farm income hypothesis. There may be secondary variables, such as Kennedy’s assassination, Covid, weather, bird/swine virus, wars, inflation/interest rate, immigration, crime, stock prices and so on, to consider in any model. Still, under the current U.S. electoral system and consumption theory, it is not surprising that only one variable, farm income, holds basically the key to any presidential election success.

JEL E12 E21 J3 F41 B00

Keywords consumption; martingale; savings; growth; income; election; trade

Author

Cheng K Wu, Pres., Growonders Corp., USA, cwucnspt@hotmail.com

Consumption Theory and Why Any GOP Candidate, Including J.D. Vance, Would Have Won the 2024 Election

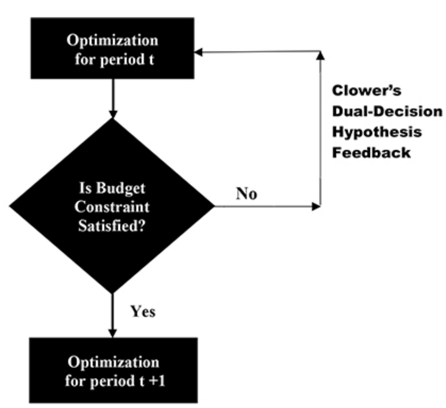
Cheng K. Wu

COMMENT

The role of politics, including fiscal stimulus, on the growth of the economy is relatively well known (Frieden) but the reverse may not be necessarily true. Consumption theory and its optimization mechanism may help understand the U.S. presidential election. Wu (2017) derived the result showing change in savings is a function of labor income growth. This result helps understand important questions, such as Adam Smith's Wealth of Nations, why U.S. savings is so low and why other" high saving" countries suddenly have now considerably lower savings, and in the future, even explain why positive growth may have negative saving and vice versa.

The reasoning of change in savings as a function of labor income growth can be found in Keynes' General Theory as a "*simple principle*": "*if he does adjust his expenditure to changes in his income, he will over short periods do so imperfectly. Thus a* ***rising*** *income will often be accompanied by* ***increased*** *saving, and a* ***falling*** *income by* ***decreased*** *saving, on a greater scale at first than subsequently [emphasis supplied]"* (Keynes, p. 96-97). For Keynes, income is an independent variable and change in savings is the result of income changes so there can't never be a 'forced' saving. Similarly, presidential elections may be predetermined by income growth.

From the application of Clower's Dual-Decision Hypothesis (DDH), Wu (2018) emphasized how to achieve this change in savings result and compared with traditional models. Under DDH, consumers make optimal decision based on a budget constraint, which includes labor income. Later, if they realize that labor income was less than expected, then further optimization is done with proper adjustments. In effect, we have a feedback to the system. On the other hand, if budget constraint were to hold true (Hall 1978) there is no need for feedback optimization and no change in consumption is required.



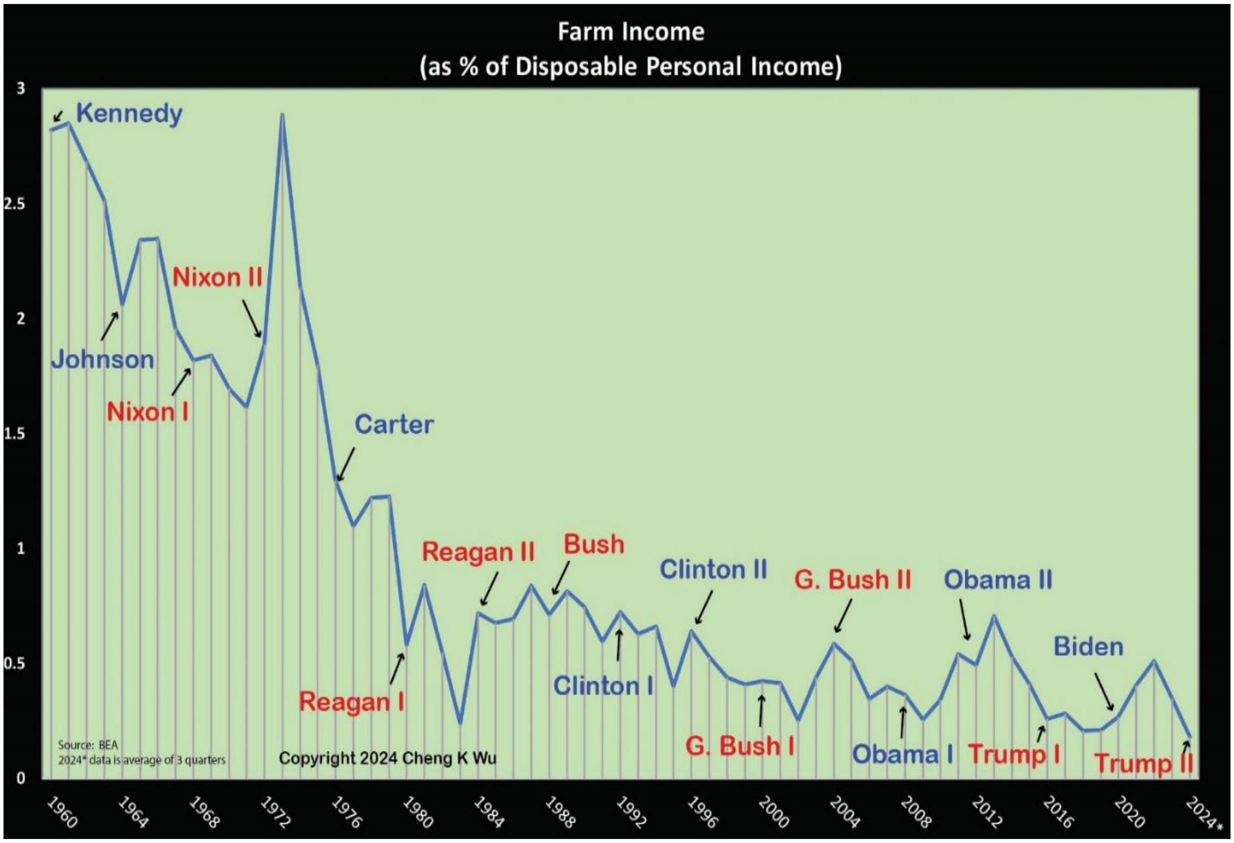
Optimization with Budget constraint with and without Clower's DDH Feedback

DDH relevance is feedback optimization and how voters can determine their consumption, in this particular case the "purchase" of a president service. Since income growth is dynamic (Keynes' disequilibrium) so should be presidential elections. Generally, were income to be growing change in savings is higher and the next president is likely to have a candidate of the same party. Otherwise, were income to decline change in savings is lower and there is a change in political party. In other words, DDH does not favor parties either way only income growth: we have had 9 republicans and 8 democrats elected in the past 17 elections. Thus, in the 2024 election, with declining farm income growth, Biden or Kamala Harris would not likely have succeeded against any candidate from the GOP party, including J.D. Vance, were Trump not been in the ballots.

Why farm income (Badger et al, 2016)? Prior to the election, when polls showed voters complained about "Biden's economy is not doing better than the one during Trump presidency of 2016" (Salvanto et al, 2024) or that "Biden's economy is not doing well" (Langer, 2024) most experts were confused and thought their complaint was about inflation, housing, interest rate and so on. In the months leading to the election of 2024, democrats were feeling increasingly confident about the GDP, employment and inflation. Still, for most states, including the so called battleground states of Michigan, Pennsylvania and Wisconsin, are heavily dependent on farm business (Witte, 2019). Most likely, voters in the south and mid of the country did not see improvement in their local economies only declining income and savings and voted accordingly (Evich, 2016).

Lack of farm income growth suggests that the 2023-2024 economic "soft landing" was largely accomplished without benefiting farm states. As a result, Kamala Harris emphasis on Trump record and misbehavior and positive messaging on national issues, such as employment, inflation/interest rate, GDP, abortion, and so on had no relevance regarding farm income or its voters.

From 1959 to 2024, the chart below confirms that, with two exceptions (Johnson and Clinton II), when farm income drops there is a shift in presidential election, independently of the president (or party) in power. (Johnson election may have been affected by Kennedy's assassination. Clinton II had strong farm partial recovery in first two quarters of 1996.). Note that in 2024 (for first three quarters), farm income as percentage of disposable personal income reached the lowest level in the last 65 years.



James Carville's famous mantra that "it is the economy, stupid" is deep in the back of most politician minds but it is ill-advised to consider farm economy within the large context of an aggregate national statistics, such as GDP, inflation, unemployment, national debt, stock market or interest rates (Horsey, 2024). What the consumption theory does is to provide a framework to narrow down the cause of the lack of satisfaction with the economy and understand how voters optimize their voting. That is, in DDH, a wrong assumption in an early optimization leads to diminished savings, which causes the voters to redo their optimization, with updated data accumulated during the prior 3 ¾ years. In the end, despite lapses of accurate information, consumers are rational and voting will be based on their self-interest.

How to raise the farm income? Not a simple answer since it depends on a multitude of factors, such as weather, China, avian/swine flu, tariffs, abortion, trade and so on. However, one thing is for certain, for a given income growth we should be better prepared at forecasting changes in farm savings and the outcome of future presidential elections.

References

Badger, E. et all (November 11, 2016), “The Election Highlighted a Growing Rural-Urban Split”, NY Times. https://www.nytimes.com/2016/11/12/upshot/this-election-highlighted-a-growing-rural-urban-split.html

Clower, R. W. (1965), "The Keynesian Counterrevolution: A Theoretical Appraisal," in The Theory of Interest Rates, ed. F.H. Hahn and F.P.R. Brechling, Macmillan, pp. 103-25.

Evich, H. (November 13, 2016), “Revenge of the rural voter”, Politico, https://www.politico.com/story/2016/11/hillary-clinton-rural-voters-trump-231266

Flavin, M. A. (1981), "The Adjustment of Consumption to Changing Expectations about Future Income," Journal of Political Economy, vol. 89, no.5, pp. 974-1009. http://dx.doi.org/10.1086/261016

Frieden, J. (June 2020), “The Political Economy of Economic Policy” https://www.imf.org/en/Publications/fandd/issues/2020/06/political-economy-of-economic-policy-jeff-frieden

Hall, R. E. (1978), "Stochastic Implications of the Life Cycle-Permanent Income Hypothesis: Theory and Evidence," Journal of Political Economy, pp. 971-87, October 1978. https://doi.org/10.1086/260724

Horsey, J. (April 2024), “‘It’s the economy, stupid,’ only gets a candidate so far” https://www.seattletimes.com/opinion/its-the-economy-stupid-only-gets-a-candidate-so-far/

Keynes, J. M. (1936), The General Theory of Employment, Interest, and Money, Hartcourt Brace Jovanovich.

Langer, G. (November 5, 2024), “Exit polls 2024: Deep economic discontent with Biden drove voters to Trump” https://abcnews.go.com/Politics/2024-exit-polls-fears-american-democracy-economic-discontent/story?id=115529546

Modigliani, F. and Brumberg R. (1954), "Utility Analysis and the Consumption Function: An Interpretation of Cross-Section Data," in K. K. Kurihara, ed., Post-Keynesian Economics. Rutgers University Press.

Modigliani, F. and Brumberg R. (unpublished manuscript 1952, published 1979), "Utility Analysis and Aggregate Consumption Functions: An Attempt at Integration," in The Collected Papers of Franco Modigliani, ed. A. Abel, Vol. 2, MIT Press.

Reich, R. (September 6, 2016), “The reality of free trade deals — they don’t benefit all”, Salon. https://www.salon.com/2016/09/06/robert-reich-the-reality-of-free-trade-deals-they-do-not-benefit-all_partner/

Salvanto, A. et all (March 3, 2024), "CBS News poll finds voters remember Trump's economy as good, boosting Trump to national lead over Biden today"
https://www.cbsnews.com/news/poll-trump-leads-biden-economy/

Soffen, K. et all (November 9, 2016), "Two swing states show why Clinton lost," Washington Post.
https://www.washingtonpost.com/graphics/politics/2016-election/precinct-results/

Witte, M. (2019), "A growing rural-urban divide has led to the political underrepresentation of people living in cities, Stanford political scientist finds"
https://news.stanford.edu/stories/2019/06/urban-rural-divide-shapes-elections

Wu, C. K. (1994), "New Result in Theory of Consumption*:* Changes in Savings and Income Growth*"*
https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=5952d1e647197e2275d8bc9722aa1e896176ba9d

Wu, C. K. (2016), "New Result in Theory of Consumption: Changes in Savings and Income Growth - Nineteen Years Later," Journal of Economics Library, Vol. 3, No.1, pp.77-81,
http://www.kspjournals.org/index.php/JEL/author/submission/684
https://mpra.ub.uni-muenchen.de/69582/

Wu, C. K. (2016): *Economics and How Obama Could Have Lost the 2016 Election Too.*
https://mpra.ub.uni-muenchen.de/75107/

Wu, C. K. (2017): *Does Clower's Dual-Decision Hypothesis lead to the change in saving conclusion in Keynes's General Theory?*
http://www.kspjournals.org/index.php/JEL/author/submission/1497
https://mpra.ub.uni-muenchen.de/82120/
'
Wu, C. K. (2018), "*Clower's Dual-Decision Hypothesis is economics"*
http://www.kspjournals.org/index.php/JEL/author/submission/1565
https://mpra.ub.uni-muenchen.de/84013/