Should you vote? Years ago, I was driving through New Hampshire admiring the fall foliage. By the roadside was a big hand-written sign nailed to an old barn. The sign read, “Don’t vote! It only encourages them.” I wonder what that sign painter is saying now? I also wonder what some of the “experts” are predicting about the odds of President Obama staying in the White House. Here’s what I’ve seen recently:

Scenario 1: Obama Wins
According to the Intrade.com, the odds of Obama being re-elected are 75 out of 100. In other words, he is a three-to-one favorite over Romney. Intrade is essentially an online betting parlor where you can place wagers on a wide variety of events. They ask questions like: Will there be a magnitude nine or higher earthquake anywhere by December 31, 2012 (7 percent)?

The way it works is that if you want to bet on an Obama victory, you buy a share for $7.40 that will pay $10 if you’re right. You lose the $7.40 if you’re wrong. You can buy more than one share and can sell shares for a profit or loss before the election outcome is known.

Interestingly, the odds of an Obama victory have been shifting. They hit a low of about 47 percent about 12 months ago and rose to the vicinity of 60 percent this past spring and then backed off somewhat. They’ve been rising recently, especially after the nominating conventions.

By the way, you can still bet for or against Ron Paul becoming President. You can buy a share for $0.01 which will pay $10.00 if he wins! As Yogi Berra once said, “It ain’t over until it’s over.”

Scenario 2: Romney Wins
Two political scientists from the University of Colorado (Kenneth Bickers and Michael Berry) have developed a computer model that predicts the Electoral College votes based on a combination of national and state economic conditions such as unemployment and per capita income. The model has correctly predicted each of the last eight elections – even the 2000 cliffhanger when Al Gore won the popular vote but George W. Bush took the Electoral College.

Bickers and Berry predict that Obama will get 52 Electoral College votes less than the 270 he needs to win! They will soon recalculate their results with the benefit of more recent economic data. You can check for updates at http://www.colorado.edu/news/releases.

Scenario 3: Too close to call
My graduate school classmate, and Yale faculty colleague, Ray Fair continues to update and improve his model of the popular vote outcome. Ray has looked at elections over the past 100 years and found that he can predict the popular vote split quite accurately by using national economic indicators: real Gross Domestic Product, per capita incomes, and inflation. His model says the election is too close to call.

What the actual outcome will mean for the economy is hard to say. Much depends on whether the Republicans retain control of the House (quite likely) and if the Democrats retain control of the Senate (more uncertain). If Romney wins, much also depends on important specifics of his tax and spending cuts programs that have not yet been disclosed.

The Job Count: There’s considerable debate over how many jobs have been created during President Obama’s first term. Getting the answer is a bit complicated.

If the count starts with the inauguration in January 2009, then we’re still down 260,000 jobs by August 2012, the most recent available month.

But the longest and deepest recession of the post-WWII period began in December 2007 and didn’t end until June 2009. It has been argued that June 2009 is a much more relevant beginning. This shift of a few months dramatically changes the small loss to a large gain of 2.8 million.

Musings & Amusings

Mitt Romney says... he will create 12 million new jobs in his first year in office – and that's just for people to do his taxes.  
—Jay Leno

Yesterday a medical marijuana group officially endorsed President Obama for president. Doesn’t really help… because they were just getting around to endorsing him for 2008.  
—Conan O’Brien

Donald Trump was bumped from speaking at the Republican convention because of Hurricane Isaac. See, nobody ever talks about the good things hurricanes do.  
—Jay Leno
Finally, employment didn’t bottom out until February 2010 and has grown 4.1 million since then. Isn’t this stretching (shrinking?) the yardstick a bit? Maybe not. The folks who have studied economic cycles over the years recognized that many indicators have individual turning points that regularly differ from the overall economy. They called these “specific cycles” to distinguish them from the overall “reference” or “business” cycles.

Prior to the 1990 recession, jobs started rising at or near the end of the recession, making them a “coincident indicator.” However, beginning with the recovery from the 1990-91 recession, jobs continued to decline for a while. As noted on the PBS Newshour, I was the first to label this the “jobless recovery” way back then. Non-farm jobs have shifted from being a coincident indicator of when a recession will end to a lagging one.

Which number is correct? As Tommy and Ray Magliozzi say on their Car Talk radio show, send me a $20 bill in a self-addressed stamped envelope and I’ll give you the answer. Just kidding.

Ben Launches QE III: At the conclusion of the September FOMC (Federal Open Market Committee Meeting), the Federal Reserve announced the latest of its nontraditional moves to boost economic growth. In the prior two installments of Quantitative Easing (QE), the Fed purchased approximately $2.3 trillion in U.S. Treasury and mortgage-backed securities.

In September, the Fed announced a threefold program. First, it would purchase $40 billion per month in mortgage-backed securities until labor markets showed signs of improving. The open-ended nature is a departure from the previous practice of specifying the total amounts that would be bought. Moreover, the Fed will only purchase mortgage-backed securities in a direct attempt to help housing.

Second, the Fed will continue “operation twist” begun in 2011, whereby it sells short-term Treasury obligations and uses proceeds to buy longer-term maturities.

Finally, the Fed announced it would keep short-term rates at close to zero until at least the middle of 2015.

What does the Fed hope to accomplish? After pushing short-term rates close to zero in 2008, the Fed has since been trying to lower long-term yields to stimulate housing and investment. QE does this by increasing the demand for bonds through purchases of securities from banks, pension funds, and other holders. Announcing that it will hold short rates flat until 2015 should also lower long-term rates since most economists believe that long-term yields also embody expectations about the path of short-term rates.

In his August speech at the annual Fed symposium in Jackson Hole, Wyoming, Bernanke discussed past efforts and gave some quantitative estimates of their effects. My summary is that the $2.3 trillion of purchases since 2008 have pared roughly 100 basis points (a full percentage point) off long-term yields. This, in turn, has boosted GDP by 3 percent and jobs by 2 percent.

Accordingly, if the Fed purchases $500 billion in mortgage backed securities over the coming 12 months, we might see the unemployment rate drop several tenths more than it would otherwise.

Isn’t this a risky venture for such small gains? Part of the recent “concern” arises simply from the fact that it is an election year. However, there are some genuine worries.

Isn’t Bernanke just “printing money” which will simply produce high inflation? Critics have been saying this for almost five years but there’s little evidence that QE has caused overall inflation to accelerate. Oil and food prices have recently spiked because of adverse weather and other supply conditions. Even so, the overall CPI (Consumer Price Index) is up only 1.7 percent over the 12 months ending in August. The CPI excluding food and energy has risen 1.9 percent during the same period.

Bernanke has been creating bank reserves and not printing money. As I’ve said numerous times, the Fed’s purchases of securities cannot fuel inflation as long as the proceeds wind up as idle reserves in the banks. That’s exactly what’s happened— the reserves are just sitting there earning 25 basis points. The reserves must be loaned out in order to even become an inflation threat.

What about the Fed’s “exit strategy?” Can the Fed wind this down without generating future inflation? Suppose banks start lending all those reserves? The Fed can put a stop to this whenever it wants by raising the rate it pays on idle reserves – the reserves are just sitting there earning 25 basis points. The reserves must be loaned out in order to even become an inflation threat.

Besides, the Fed is the only game in town – since Washington is gridlocked over what to do about the economy.

I do plan to vote and I urge you to do so also!