

Consumer Economic Expectations: Persistent Partisan Differences

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Abstract

An unprecedented partisan divide in economic expectations occurred following President Trump's election, and those differences have persisted unchanged for more than a year after his election. While initial differences in economic expectations are not surprising immediately after a presidential election, those partisan differences have remained unchanged through mid 2018. Such sharp and sustained partisan differences are not consistent with theories of rational expectations since all parties have access to the same economic information. Yet, Democrats still expect an imminent recession, and Republicans anticipate much more rapid economic growth. Panel data are used to demonstrate that the dramatic shift in expectations following Trump's election occurred among identical individuals, and the recent shift in expectations has been larger than for any prior presidency. Data is shown to demonstrate a selective perception among consumers regarding recent economic developments, with Democrats placing heavy emphasis on negative developments and Republicans on positive developments. The major underlying issue is whether survey measures of economic expectations have the same predictive ability given their responsiveness to political rather than economic developments. While some observers believe the impact of partisanship on economic expectations is uniquely tied to the Trump administration, the paper suggests that partisanship will persist due to wage stagnation and income inequality. The University of Michigan's surveys have regularly observed differences in the mean levels of economic expectations across socioeconomic subgroups. Nonetheless, the time-series correlations across those socioeconomic subgroups remained extraordinarily high despite the mean differences. Partisan differences could show the same pattern. Unfortunately, that remains a hypothesis until more data is collected in the years ahead.

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Consumer Economic Expectations: Persistent Partisan Differences

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An unprecedented partisan divide in economic expectations occurred following President Trump's election, and those differences have persisted unchanged ever since his election. Such sharp and sustained partisan divergences are not predicted by theories of rational expectations since all parties have access to the same economic information. Most other social sciences, in contrast, have adopted a more inclusive view, accepting that a significant relationship exists between people's partisan views and their economic expectations. It is of some note that the more insular views of economics are of relatively recent origin. It has only been since the closing days of the 19th century that economics shed the name "Political Economy" to become a distinct discipline, primarily due to the influence of William Stanley Jevons and Alfred Marshall. As we all know, change does not come quickly in academia, as it took another one hundred years for Glasgow University, where Adam Smith once taught, to finally change the name of its department from political economy to economics at the close of the 20th century. It is not that economics dismissed the importance of politics as a cause of economic behavior, but that the discipline held that rational interpretation of potential economic policies would ultimately converge across all economic agents. Distributional issues were dominated by concerns about how to best maximize economic growth in the last half of the 20th century. Only recently have distributional issues gained prominence, and have commingled partisanship and economics. Indeed, income inequality, immigration, and trade policies are now considered as much political as economic issues. Moreover, in an era of secular stagnation and income inequality some people have turned from economic markets toward government programs as the best means to enhance their living standards. The distributional issues sparked by secular stagnation and income inequality are likely to perpetuate sustained partisan differences in economic expectations.

There are two important elements of this thesis: first, that the partisan differences are due to fundamental concerns about distribution and not simply a temporary reaction to a surprising election result; and second, that the trends in partisan expectations influence economic behavior. While the absolute differences may represent political posturing, the trends in expectations are still likely to be highly correlated across the partisan camps. In most past presidential elections the winner was widely expected in advance, and neither candidate was demonized in the campaigns. In this past election, each candidate was held by the opposition to represent the worst possible choice for president, mainly on non-economic issues. At the time of this writing, it has been more than eighteen months since his election, and the partisan divergences in economic expectations have not narrowed.

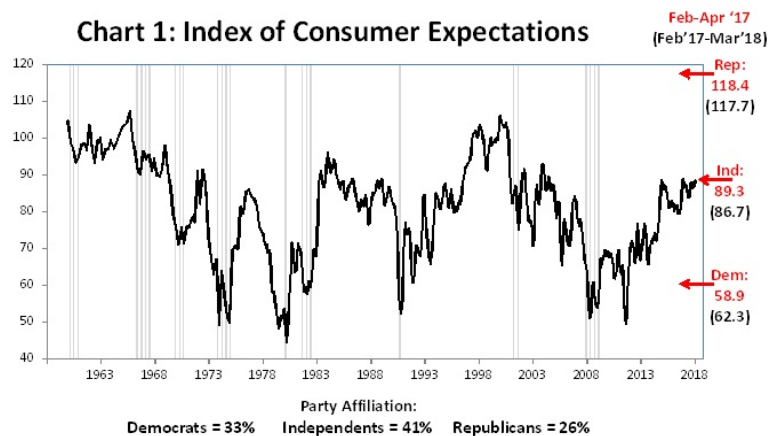
More data are also needed to determine whether the partisan differences in expectations cause real differences in economic behavior. People who expect the economy to fall into recession act differently than people who anticipate robust economic growth. If people's expectations were dominated by political rather than economic factors, would people still make the same important economic decisions based on those expectations? If so, will spending pullbacks be offset by stepped up spending, so that across all consumers the average expectation still has predictive power? Another hypothesis is to anticipate that people know the difference between partisan views and economic reality and act accordingly. This assumption, however, requires that people

knowingly hold two sets of economic expectations: one set they publically share (and are captured in surveys), and another private set of expectations that are used to guide their own behavior. While this may seem unlikely, surveys have long guarded against what has been termed in the methodological literature as “socially desirable responses.” If people do maintain distinctive private and public personas, the survey data on economic expectations may no longer determine their economic behavior.

Differences in economic expectations across population subgroups are not unique. The data from the University of Michigan surveys have long found that expectations among age, income, and education subgroups permanently differ. Theory suggests that people with high work skills, for example, anticipate a much lower unemployment rate than those with low job skills. The data for unemployment expectations among respondents with different education levels significantly differ in mean levels, and these means mirror the actual differences observed by the Department of Labor’s official surveys. The same differences have been observed across age groups, which have also consistently mirrored the official statistics. As is well known, correlations rather than means dominate the explanatory power of econometric models. Despite the mean differences, inter-correlations of unemployment expectations are very high across demographic subgroups. This pattern of differing mean levels but very high inter-correlations holds for most other economic expectations as well. It may well be that partisan differences in expectations will also be highly correlated over time despite their mean differences. Partisanship would then be mainly reflected by mean differences similar to most other demographic variables, but leave the predictive power of econometric models unchanged. Unfortunately, only mean partisan differences are now available, so this issue must also await more data to be resolved.

Partisan Differences in Economic Expectations

The most basic first step is to provide evidence that consumers have adopted drastically different expectations about prospects for the national economy. Chart 1 plots the timeseries of the Index of Consumer Expectations from the early 1960's to March of 2018. The chart plots the three-month moving average of the survey results. I have also noted in the right hand margin how partisanship has influenced these expectations immediately following the election as well as the average differences over Trump’s term in office up to March 2018. Partisanship was determined by self-identified party affiliation. The data by partisanship indicate that Republicans anticipate robust economic growth, and Democrats expect recession. Independents are positioned about the same overall level as the average of the two parties. While one may have anticipated extreme views in the months immediately following the election (the first full three months of the Trump presidency), those extreme views have hardly moderated over the next year. Compared with the overall average of 86.6 from February 2017 to



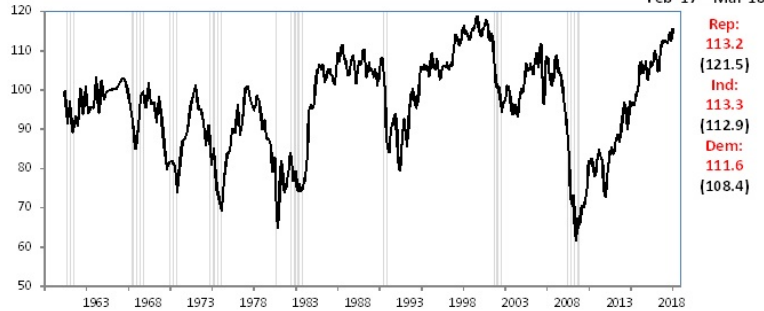
March 2018, the Expectations Index among Democrats was just 62.3, while among Republicans it was 117.7. Note that self-identified Independents had an Index score of 86.7, nearly identical the overall average.

It is of some interest to note that Independents formed the largest group, accounting for 41% of all respondents; Democrats accounted for 33% and Republicans 26%. In the two-party system in the U.S., Independents effectively act as a centrist party, to which the winning presidential candidate must appeal.

While influence of partisanship on people’s expectations of the future course of the economy may not be surprising, it would be entirely another thing if people used “alternative facts” to describe the current state of the economy. In that case, the data would become unbelievable, and the analysis would heavily depend on psychological explanation of the existence of outright misperceptions.

The Index of Consumer Sentiment is composed of two main sub-indices: the above noted Expectations Index, and the Current Economic Conditions Index, shown in Chart 2. The Current Conditions Index indicates no initial significant partisan

Chart 2: Index of Current Economic Conditions Feb-Apr '17
Feb '17 – Mar'18

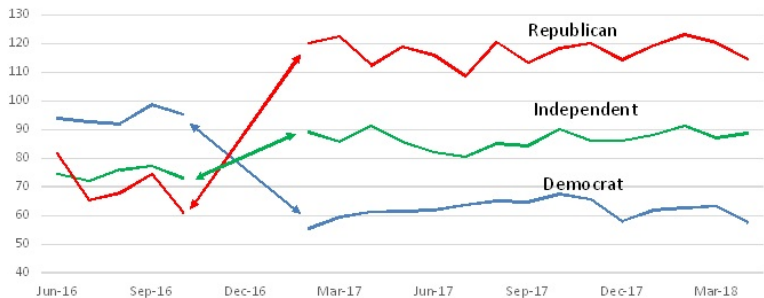


difference in how consumers perceive current economic conditions. The February to April 2017 data is nearly equal across parties. Difference grew over the next year, however, as Republicans became more favorable about current economic conditions; indeed, the overall economy did improve in the past twelve months. Surprisingly, Democrats judged current economic conditions a bit worse, apparently ignoring improved economic conditions.

The persistence of the partisan divide is shown in Chart 3 as well as the shift among Democrats and Republicans following the election of Trump. The survey included the question on self-identified political party

identification from June to October 2016, skipping from November to January 2017, and then again starting in February 2017 to present. The party identification question has usually been asked prior to election, but it soon became apparent after the election of Trump that party affiliation was having an unprecedented impact on consumer expectations. The switch was dramatic following the election.

Chart 3: Index of Consumer Expectations by Party Affiliation: Pre and Post Election



Perhaps more importantly, post-election there has been minimal change in the expectations of Democrats, Republican, or Independents.

Most readers are familiar with the ecological fallacy: it represents a logical error that equates inferences about the behavior of individuals from data on groups of individuals. The University of Michigan surveys are well suited to make the correct inference since the samples represent a rotating panel of respondents. The Michigan survey interviewed the same person in June, when both candidates for the presidency were known and in December, the month following the election. The right hand panel on Chart 4 shows that among identical respondents, those who self-identified as Democrats scored 24.1 points lower on the Expectations Index in December than in June, while Republicans raised their score by 50.5 Index-points from June to December, a gap of 74.6 points. Income expectations were expected to be 1.3 percentage points lower by Democrats and 2.3 percentage points higher by Republicans. Net changes in unemployment expectations were 47 points less favorable in December than in June for Democrats but 91 points more favorable among Republicans. There is no question that the election of Trump caused Democrats to become more pessimistic and Republicans to become more optimistic about future economic conditions.

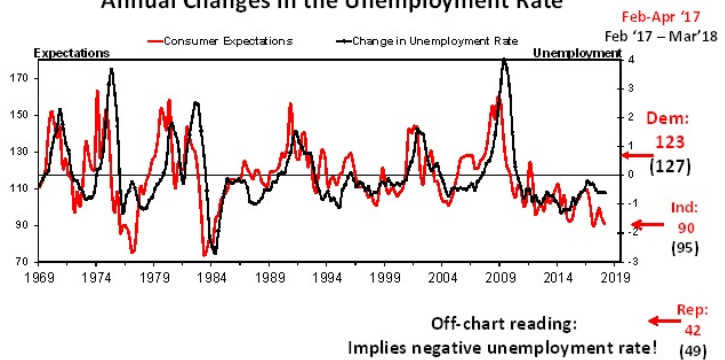
Chart 4: Change in Economic Assessments Among Identical Consumers: Pre to Post Elections

	Change in Data from Comparable Panel Time Periods								
	Reagan: Change June – Dec 1980			Obama: Change June – Dec 2008			Trump: Change June – Dec 2016		
	Dem	Ind	Rep	Dem	Ind	Rep	Dem	Ind	Rep
Index of Consumer Expectations	+10.2	+7.7	-6.3	+14.2	-2.1	-3.0	-24.1	+14.1	+50.5
Partisan Gap (Dem - Rep)	+16.5			+17.2			-74.6		
Income Expectations (?median %)	+2.3	-0.7	-0.1	+0.2	+0.9	-2.0	-1.3	+1.0	+2.3
Partisan Gap (Dem - Rep)	+2.4			+2.2			-3.6		
Year-ahead unemployment									
Decrease (?percentage)	0	+4	+11	+5	-2	-5	-18	+18	+53
Increase (?percentage)	-36	-22	-26	+3	+17	+15	+29	-17	-38
Net (Decrease - Increases)	+36	+26	+37	+2	-19	-20	-47	+35	+91
Partisan Gap (Dem - Rep)	-1			+22			-138		

This reversal in expectations was quite large. Each of the Presidents identified in Chart 4 took office after a member of the opposite party held the office, but none of them caused nearly as much change in economic expectations as Trump. Note that the change data covered exactly the same six-month period from June to December in each case. The total difference between Democrats and Republicans following Trump’s election was a statistically significant 74.6 points, compared with insignificant changes of just 17.2 points for Obama, and 16.5 points for Reagan. The same difference was true for personal income expectations and expected changes in unemployment. Unfortunately, the Michigan surveys has only rarely asked the question on party affiliation—in only 44 months out of a total of nearly 500 months, or just 8% of the time, with most of these occurring in the past decade. Since it hardly ever mattered, it wasn’t regularly measured.

An indication of the partisan extremes, Chart 5 includes the Michigan measures of unemployment expectations and the official Bureau of Labor Statistics measure of unemployment. Since the surveys measure the expected change in unemployment during the

Chart 5: Unemployment Expectations and Annual Changes in the Unemployment Rate



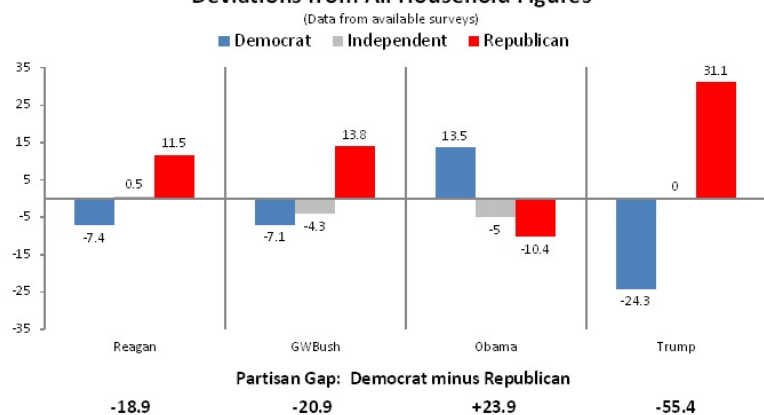
year ahead, the official data was converted to year-to-year changes in the unemployment rate. The data show a remarkably robust relationship between prior expectations and subsequent actual changes in the unemployment rate, that is until following the election of Trump. As on prior charts, on the right margin I have indicated the breakdown of expectation by party affiliation. There are two notable aspects: the first is the extreme divide between the two main parties; second is the unreasonableness of unemployment expectations on the part of Republicans, although the Democrats have also persistently and incorrectly anticipated increases. The April 2017 unemployment rate was just 4.4%, which then fell to 4.1% by March 2018. If the decades old relationship between expectations and realization still holds, the Republican expectations are off the chart and indicate a negative unemployment rate. Clearly, partisanship has prompted more inaccurate unemployment expectations.

Presidential Administrations

The prior analysis of the impact of presidential elections on economic expectations was restricted to how individuals immediately changed their economic expectation upon the election of a new president. The following analysis is based on all surveys that included the question on party affiliation within each president's term in office (the data exclude the November surveys in election years when ballots were cast). The months included in this analysis are as follows: 6 months under the Reagan administration (3,091 cases), 9 months under the G. W. Bush administration (4,387 cases), 24 months under the Obama administration (11,043 cases), and 14 months under the Trump administration (8,316 cases). Since differences in the mean level of the Index of Consumer expectations mainly reflect business cycle developments, a more accurate determination of the partisan impact is reflected by the differences for each political party from the overall monthly mean. The same procedure was followed for the other measures that will be introduced shortly.

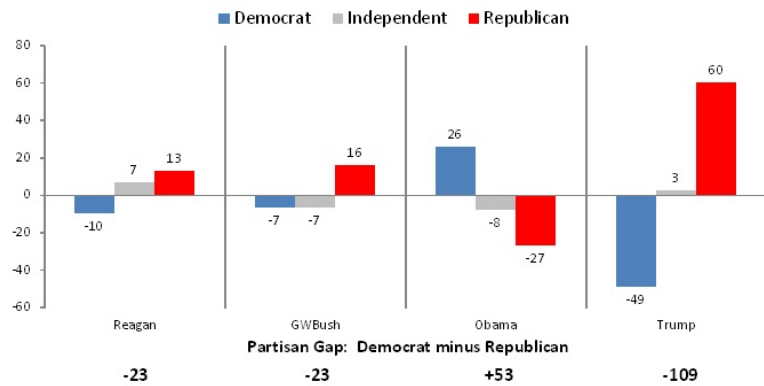
The data for the Expectations Index are shown in Chart 6. Republicans held more favorable expectations during the Reagan, Bush, and Trump administrations, who were all Republican presidents. During the Obama administration, Democrats held more optimistic expectations. The partisan gap, defined as the difference between Democrats and Republicans, showed an insignificant difference between the Reagan and Bush administrations, and was only slightly higher, although of the opposite sign, under President Obama. In sharp contrast, the partisan gap was over twice as large and highly significant under the Trump administration. Republicans and Democrats held much more extreme views under Trump than under past administrations. Importantly, Independents had index scores exactly equal to the balance of the two political parties.

Chart 6: Index of Consumer Expectations by Party Affiliation:
Deviations from All Household Figures



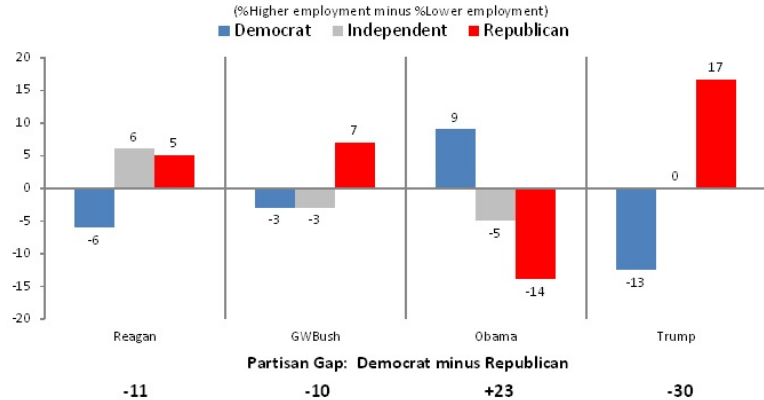
What could explain the extraordinary partisan divide under the Trump administration? All people have access to the same news about economic conditions as well as potential changes in economic policies. Theories of rational expectations would typically assume that these information sources would lead people to adopt similar economic expectations. To be sure, there is an extensive literature in political science and sociology of partisan differences in economic expectations. The differences have been generally small, although significant, and largely ignored by economists. The current partisan impact on economic expectations exhibited by consumers (as well as business firms) suggests that selective perceptions of economic developments and economic policies must be involved.

Chart 7: Selective Perception of Economic News: Deviations from All Household Figures (%Favorable minus %Unfavorable)



The University of Michigan surveys regularly ask respondents whether they have heard of any recent changes in the economy, and if they have, to explain in their own words what they have heard. At the most general level, the responses are divided into favorable and unfavorable developments. The data in Chart 7 shows the results by party affiliation as deviations from the overall monthly survey levels. Under the Reagan and Bush administrations, the differences were quite small, but in the expected direction with net references to positive developments higher among Republicans. The partisan divide on perceptions of the economy doubled under the Obama administration, and then again doubled under the Trump administration. Indeed, virtually all of the economic news reported by Republicans centered on positive developments, mainly references to employment and economic policies. The opposite was true of Democrats.

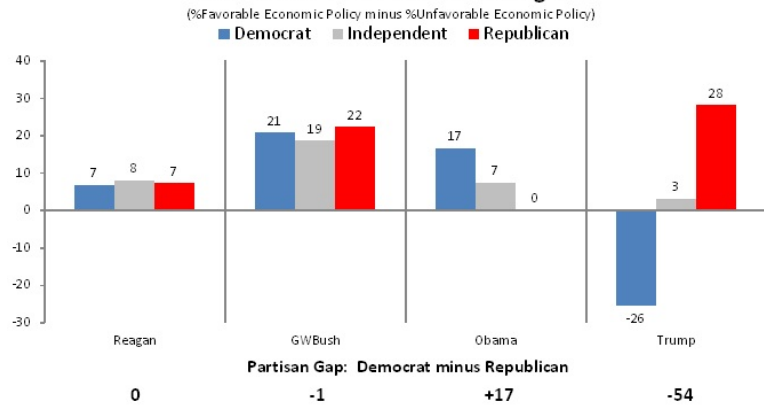
Chart 8: Selective Perception of News About Employment: Deviations from All Household Figures (%Higher employment minus %Lower employment)



When the economic developments were restricted to news about jobs, only small partisan differences were found under the Reagan and Bush administrations (Chart 8). For the Obama and Trump administrations, the partisan divide on news about jobs was nearly identical, although Democrats were more positive under Obama, and Republicans more positive under Trump. Indeed, the net references to jobs were nearly equal but in opposite directions for both Democrats and Republicans—Democrats went from +9 to -13, and Republicans went from -14 to +17.

News about changes in government economic policies showed no partisan divide under Reagan or Bush; indeed, positive references to the economic policies of Reagan and Bush were made by respondents regardless of party affiliation (see Chart 9). The data for President Obama showed that Democrats held much more favorable opinions of economic policies, while Republicans were as likely to express negative as positive views. In the first several months of the Trump administration, the partisan divide was significantly higher, with Democrats just as negative about prospective economic policies as Republicans were positive. Whereas most respondents coalesced to support the policies of Reagan, Bush, and Obama, no such consensus has yet emerged under Trump.

Chart 9: Selective Perception of News About Economic Policies: Deviations from All Household Figures



Impact of Question Wording

What is the best method to assess people’s opinions about potential changes in economic policies as well as its impact on employment? I have implicitly suggested that open-ended questions are superior in that they measure what is of most concern to the respondent without any prompting. However, closed-ended questions are much more common in consumer and business surveys.

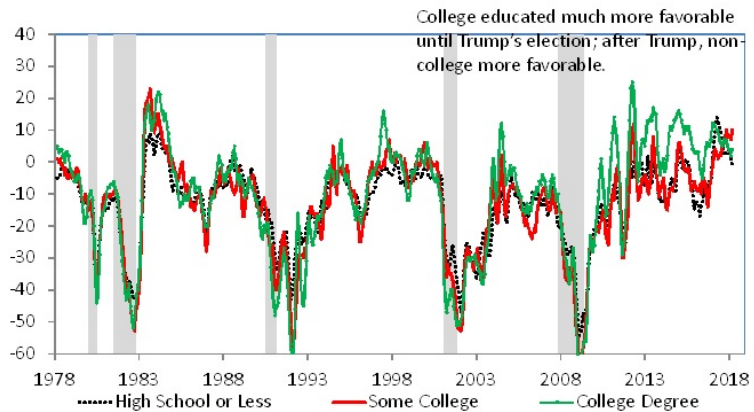
Chart 10: Differences in Economic Expectations Based on Free Versus Fixed Choice Responses

	Government Economic Policy (Positive – Negative Responses)						Employment (Decrease – Increase Responses)					
	Free-Response			Fixed Choices			Free-Response			Fixed Choices		
	16:3	17:1	Q1-Q3	16:3	17:1	Q1-Q3	16:3	17:1	Q1-Q3	16:3	17:1	Q1-Q3
All Households	-13	0	13	-17	-5	12	-2	10	12	-9	11	20
Education												
H. S. or Less	-8	10	18	-29	-9	20	-7	12	19	-13	20	33
Some College	-14	6	20	-34	-13	21	-12	4	16	-18	14	32
College Degree	-15	-6	9	0	2	2	6	12	6	0	4	4
Political Party												
Democrat	-6	-36	-30	23	-23	-46	14	0	-14	12	-25	-37
Independent	-13	7	20	-29	-11	18	-7	7	14	-18	6	24
Republican	-20	40	60	-48	25	73	-14	27	41	-18	61	79

Chart 10 shows the change in responses from the 3rd quarter of 2016, prior to Trump’s election, to the 1st quarter of 2017. Across all households, the open-ended question on news heard changed from -13 to +13 and the fixed-response question changed from -17 to +12. Questions on jobs, changed for the open-ended question from -2 to +12, and for the fixed-response question from -9 to +20. The implication is that both types of questions yield similar results.

Also shown in the same table are the results by education and party affiliation. By party affiliation, the data indicate a somewhat larger change for the fixed-response questions than the free-response questions, but both question types indicate the same enormous partisan divide. Note, however, that the partisan divides from last year's 3rd quarter to this year's 1st quarter are confined to those with less than a four-year college degree. While the divide among college educated respondents remained very low and insignificant, the change among those with less education significantly declined, with positive net changes across both question types. Again, the net changes were somewhat larger for the question on jobs with the fixed-response categories. This suggests that those with relatively low job skills, as proxied by education, were the most affected by Trump's election.

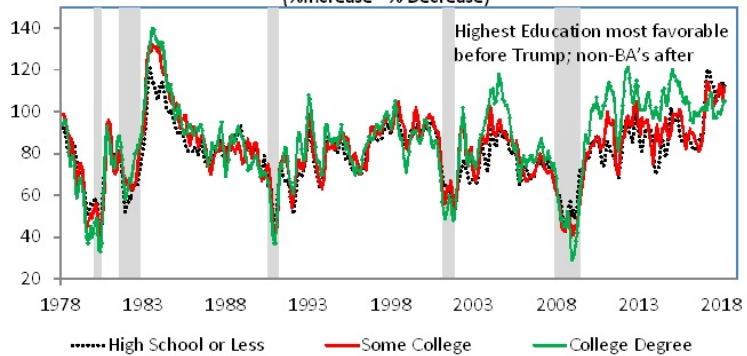
Chart 11: Spontaneous References to News About Employment Conditions by Education
(%LOWER UNEMPLOYMENT - %HIGHER UNEMPLOYMENT)



Jobs as a source of the Partisan Divide

While the partisan divide on economic policy is largely identified with the Trump presidency, the gap on jobs between Democrats and Republicans was just as strong under Obama, suggesting that job availability is a more longstanding cause of the partisan gap. One indirect method for testing this hypothesis is to observe the trends over time in references to jobs. We have already seen that the level of education was highly related to job references, with only the college educated not seeing job availability as a crucial economic issue. The data in Charts 11 and 12 show the time trends in the open-ended and the fixed-response question on jobs. Note that prior to the recent decade, the response trends for those with a high school education or less, some college, and a college degree had shown nearly identical trends. In the past ten years or so, references to jobs by college educated respondents were consistently more favorable than among the other two education groups. Since Trump's election, the largest relative gains were recorded by the two lower education groups. These results suggest that the distribution of jobs and wage gains were more favorable to the college educated under Obama, and those perceived advantages were cited more frequently by

Chart 12: Expected Change in Unemployment During the Year Ahead by Education
(%Increase - % Decrease)



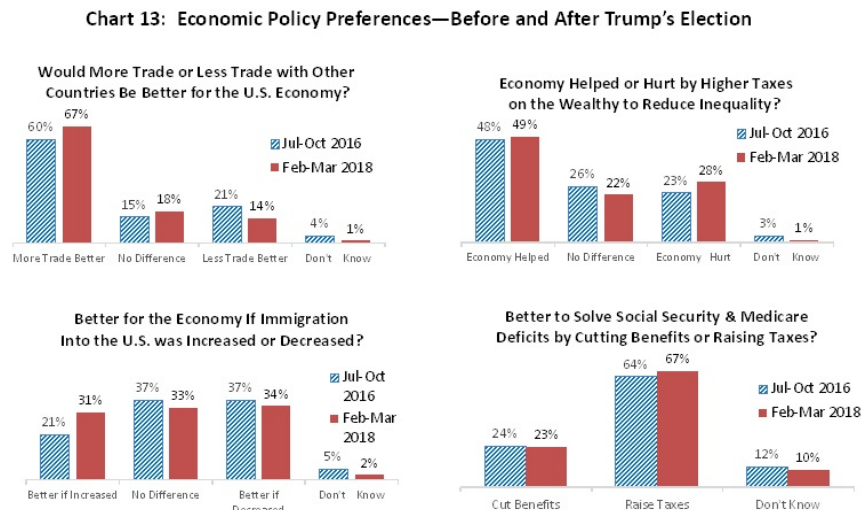
less educated workers under Trump. Note that the timeseries correlations across education subgroups appears to have shifted once Trump took office, although that is just speculation given it is based on about a dozen observations.

Public Policy Preferences

The most striking elements of the current partisan divide are differences in economic policy preferences. In the July to October 2016 surveys prior to the election of Trump, and again from February to March 2018, after his election, respondents were asked about four central issues: trade, immigration, income inequality, and Social Security. The questions were phrased to be clearly focused on the topic and avoided any suggestion about specific policies. The response scales for all questions were in terms of how it would impact the overall economy. For example, “Would more trade or less trade with other countries be better for the U.S. economy?”

Chart 13 shows the responses to all four questions, with the title indicating the question wording. The first thing to note is that there was little if any significant changes in these policy preferences following

Trump’s election from prior to his election, when most consumers anticipated a Clinton victory. Across all respondents and years, nearly two thirds viewed more trade as better for the U.S. economy, two-thirds thought it would be better to solve Social Security and Medicare deficits by raising taxes rather than cutting benefits, and nearly half viewed higher taxes on the wealthy to reduce inequality would improve the performance of the overall economy. The least agreement was found on immigration policy: in 2018 nearly equal numbers though it would be better if immigration were increased as thought it would be better if immigration were decreased or thought it would make no difference to the performance of the U.S. economy. The two policies that achieved a barely significant change between 2016 and 2018 were more favorable views on trade and immigration, increases that were driven by partisanship.

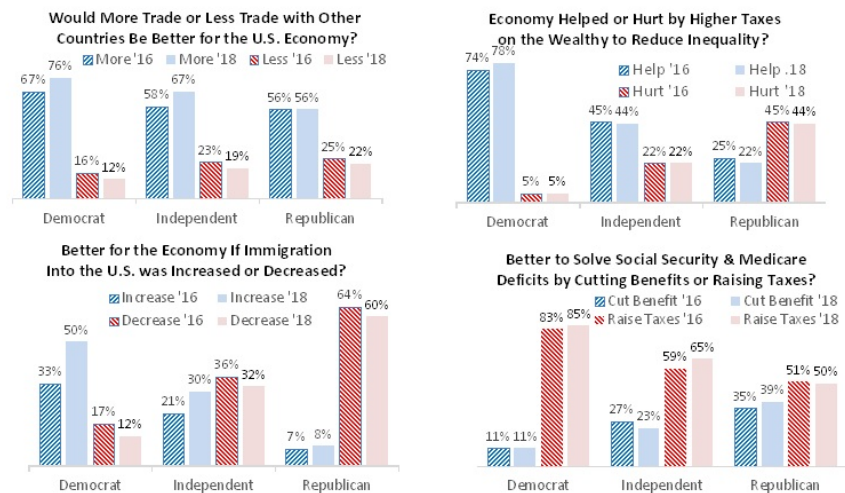


It should be no surprise that partisanship had a pervasive impact on these policy preferences; indeed, these policy issues are often used to define the difference between Democrats and Republicans. Chart 14 shows these policy preferences by party affiliation; unlike the prior chart, the proportions reporting that the policy would have no impact on the overall economy (and don’t know responses) were omitted to emphasize partisan differences. It should be no surprise that Democrats favored raising taxes on the wealthy to reduce inequality by a

substantial margin: three-in-four Democrats compared with one-in-four Republicans. In addition, Democrats favored increasing taxes rather than cutting Social Security and Medicare benefits by a large margin: four-fifths of Democrats versus half of Republicans. It should also be noted that when policy preferences were controlled for the respondent's age, education, and income, significant party differences were still present for every policy except trade.

The most agreement across the partisan divide was recorded on trade policy. All parties, including Independents, favored more trade as a benefit to the U.S. economy by at least a two-to-one margin. The data suggest that Democrats and Independents were slightly more in favor of trade following Trump's election, perhaps voiced in reaction to Trump's policies. Overall, trade was judged more favorable by Democrats, followed by Independents and Republicans. While these results are somewhat surprising, it should be remembered that the question did not specify any conditions, such as "fair" trade or paying living wages, etc. The question simply focused on the issue of trade apart from the terms of trade.

Chart 14: Economic Policy Preferences by Party Affiliation—Before and After Trump's Election



Immigration policy showed both a sharp division between political parties as well as the most change following Trump's election. The change from before to after Trump's election was the largest for immigration among Democrats: the view that the economy would be better if immigration increased jumped to 50% from 33%. In comparison, among Republicans the change was an insignificant 4 percentage points. While favorable views of immigration among Independents also increased, it was still true that these voters were more likely to hold negative rather than positive views following Trump's election.

Prospects for the Partisan Divide

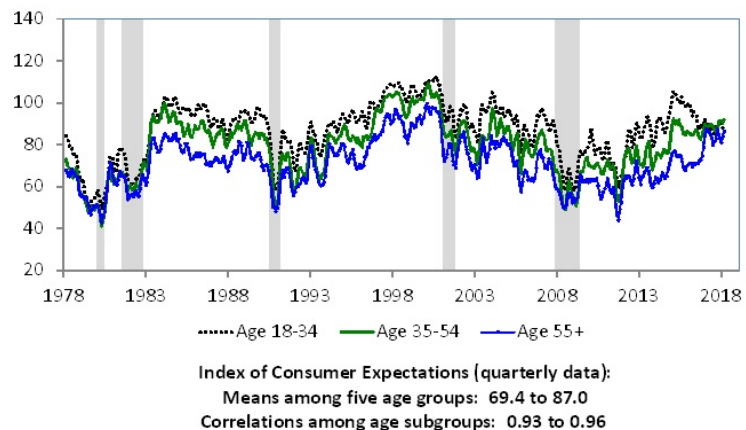
Perhaps the most discussed issue is whether the partisan divide is simply a reaction to Trump, with the gap immediately narrowing either after his agenda is deemed unpassable even by his own party, when his party loses control of congress after the mid-term elections, or after his term in office is complete. Such speculation is all the rage among DC political pundits. There are more fundamental economic issues, however, that created the gap and will maintain the partisan divide in the future. The prime economic issues responsible for the persistence of the partisan divide are wage stagnation and income inequality. Since the Great Recession, the average annual growth rate in the U.S. economy has been about two percent, and increasing income inequality

over the past several decades has meant that lower and middle income households have faced stagnating or even declining market incomes. It is only natural that these households have sought the government's help to secure greater financial support and to redress the distribution of income and wealth. The only group that has avoided stagnating incomes and high employment levels has been the college educated in the top income quintile. To be sure, these households have not benefitted as much as those in the top 1% or top 0.1%. Nonetheless, the upper middle class have enjoyed continued growth in their incomes. Since it is highly improbable that either wage stagnation or income inequality in the U.S. will disappear anytime soon. As a result, consumer expectations are likely to continue to be influenced by partisan views based on distributional concerns.

Does the rising importance of partisanship in the determination of consumer expectations mean that the data will become less useful for predicting behavior? Not necessarily. The University of Michigan surveys record regularly differential expectations across population subgroups. Subgroups defined by age, income, and education typically display differences in their expectations. For example, unemployment expectations are seen quite differently among respondents with low compared with higher education, and these differences reflect differences in the unemployment rates of these different subgroups published by BLS. Life-cycle theory indicates that young people receive larger income increases than older workers. Despite these mean differences across demographic subgroups, the timeseries correlation remains very high. Econometric models typically discount mean differences and rely on correlations to produce their forecasts.

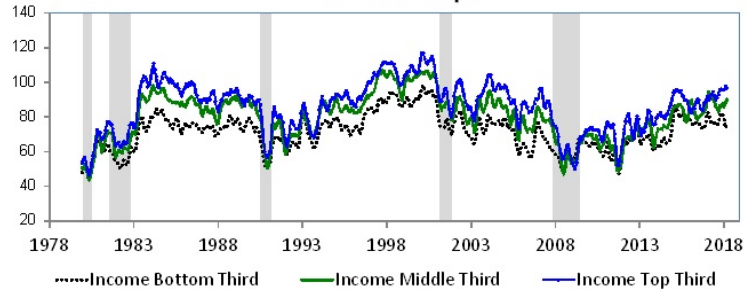
Differences across age groups in the Index of Consumer expectations are shown in Chart 15. The charted data include only three age groups so that the differences are legible. Note that the gap between the top and bottom income terciles is largest at the peaks and the gap virtually disappears at troughs. Also note the closing of the gap among age groups since Trump was elected, with the closure due to the oldest respondents. The data at the bottom of the chart is for a more detailed breakdown of age into five groups. Despite the gap of 17.6 Index-points over the 1978 to 2018 time period, all five age subgroups maintained extraordinarily high inter-correlations from 0.93 to 0.96.

Chart 15: Index of Consumer Expectations by Age Groups



The same analysis was performed for the division by income subgroups in Chart 16, with the same general conclusions: wider gaps at the peaks, and closure at the trough. The data at the bottom of the chart indicate that the mean difference between the top and bottom quintiles was 17.9 Index points. The timeseries inter-correlations were quite high, ranging from 0.91 to 0.97. The smaller gaps in recent years may well be due to an economy that had only advanced by 2%.

Chart 15: Index of Consumer Expectations by Income Groups



Index of Consumer Expectations (quarterly data):
Means by income quintiles: 69.5 to 87.4
Correlations among income quintiles: 0.91 to 0.97

If political party affiliation had a similar impact, showing differences in mean levels and high timeseries inter-correlations, it would not affect predictive accuracy of econometric models. While the current gap is

larger than the historic gaps by age and income quintiles, the larger Trump gap occurred near peak levels, and data suggest that the gaps were the largest around past peak levels. Whenever the party in office is replaced by the other party, there may be a transition period where the data is in flux, but the emerging trends could be just as highly inter-correlated as under the prior administration; that is, the means may reverse, but the timeseries correlations would remain high, preserving its predictive power. Needless to say, these questions will only be answered by the collected data in the months and years ahead.

Political Economy

An essential element of “political economy” was its foundation in moral philosophy. Today’s issues concerning the appropriate distribution of income and wealth as well as taxation and entitlements also depend on moral foundations. The modern discipline of economics must more fully accommodate how the distributions of these important facets of the political economy affect economic behavior and wellbeing.