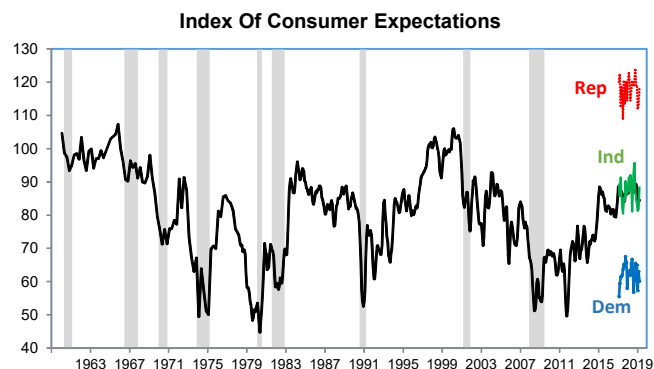


Subject: Persistent Political Influence on Expectations
From: Richard Curtin, Director

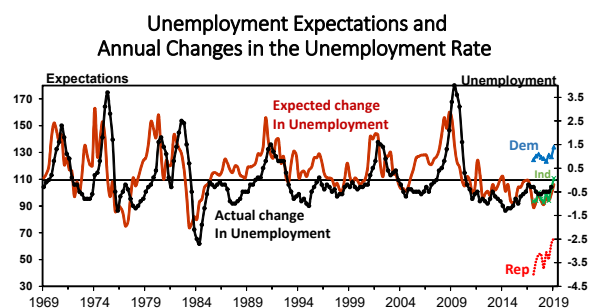
March 22, 2019

Immediately following Trump's election, prospects for the national economy were viewed quite differently by self-identified Democrats compared with those who self-identified as Republicans. The size of the initial gap was large and highly significant, with one party pointing toward recession and the other toward robust economic growth. These reactions in response to the surprising election results were initially discounted as transitory. The economy had always shaped the outcome of presidential elections; politics had never trumped the economy since the survey began in the mid 1940s. It was thought that the economy would soon regain its usual dominance in shaping economic expectations. That didn't happen. Political divisions in economic expectations have persisted largely unchanged at record levels during the past two years (see the chart). Indeed, the political gap in the Expectations Index has never appreciably narrowed. One might have anticipated that over the past two years both Democrats and Republicans would have moderated their extreme views on future economic prospects. Note that the Expectations Index among self-identified Independents (the green line) closely matches the overall Index (black line) which is the weighted average across all political subgroups. Self-identified Independents appear to have discounted both parties' slanted rhetoric.



Are these differences simply a characteristic of the normal diversity represented in surveys of the adult population? How does the size of the difference by political party compare with differences across income, age, or education subgroups? While there are persistent differences across demographic subgroups over the economic cycle, in the last two years, the all household readings for the Expectations Index have been fairly stable at high levels. The average difference between the highest third and lowest third in the income distribution has been 12.4 Index-points in the past two years, the average difference between those under age 35 and over age 55 was 4.1 Index-points, and gap between those with a high school diploma and a college degree was 5.3 Index-points. These differences are only a tiny portion of the average political gap of 55.5 Index-points.

The data suggest that Democrats and Republicans have engaged in selective perceptions of the performance of the economy, which have been enabled by the proliferation of news channels. All economic judgements depend on which comparative standard is used in the evaluation, and reasonable people may make different assessments of the same economic conditions. For example, the current rate of unemployment could be evaluated by comparison with its historic lows, or it could be evaluated based on whether job opportunities extend to all potential participants. Neither judgement, however different, represents "fake news." One might have anticipated that the importance and visibility of the national unemployment rate would result in little differences across political parties. The survey includes a question about how consumers expect the national unemployment rate to change in the year ahead, which can be compared with the actual changes in the unemployment rate (see the chart).



Democrats anticipated a much higher unemployment rate at the start of 2017 and those expectations rose at the start of 2019; on an annual basis, the expected increase rose from about 1.0 to 1.5 percentage points. In contrast, Republicans anticipated that on an annual basis the unemployment rate would decline by nearly 4 percentage points in early 2017, which has moderated to an expected decline of about 2.5 points in early 2019. Again, Independents largely overlapped the weighted average of all parties, and Independents proved to hold the most accurate year-ahead unemployment expectations.

The size and influence of political ideology on economic expectations represents a significant change that is consistent with the selective transformation from market mechanism to policies based on fairness, equity, and moral sentiments. The emerging political economy will have three important impacts. First, the selective perceptions of economic developments is likely to continue to shape people's judgements about the economy long past the current administration. Second, the resulting persistent divergence in expectations across political parties may be responsible for slower spending growth than could have been anticipated based on the average level of consumer expectations alone. Third, the link of economic expectations to political ideology is likely to continue to increase the demand for government policies as a primary means to enhance people's economic welfare via the redistribution of benefits and costs across an increasing array of economic and social programs.