



Subject: The Partisan Economy
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Partisan views now dominate consumers' economic expectations. This report focuses on the growing partisan influence on economic expectations during the past four presidential administrations. Two developments have been responsible for the rise of the partisan economy: growing income inequality and the repeated crises whose solutions demanded extraordinary governmental intervention (9/11 for Bush, the Great Recession for Obama, and the covid pandemic for Trump and Biden). What consumers concluded from these crises was that the economy could handle very expansive monetary and fiscal stimulus policies without undue harm. As a result, differences in desired economic outcomes about fairness and equity are believed to be largely independent of the goals of maximizing growth and efficiency. Unfortunately, the size of the partisan divide in expectations has completely dominated rational assessments of ongoing economic trends. This situation is likely to encourage poor decisions by consumers and policy makers alike. While there have always been partisan differences in preferred policies, the overwhelming size and persistence of the partisan gap has generated substantial economic uncertainty.

The concept of motivated reasoning accounts for the impact of partisanship on economic expectations. Motivated reasoning depends on emotional biases to produce the desired partisan justifications for economic optimism or pessimism. The supply of "fake news" is necessary but not sufficient; there needs to be a strong emotional demand for biased justifications as well.

The data are based on the absolute size of the gap in expectations. The gap between Democrats and Republicans in the Index of Consumer Expectations rose from 21.3 for Bush and 25.0 for Obama, and then doubles to 53.1 for Trump and 52.3 for Biden. Judgements about the size of the gaps are best evaluated by a comparison to its cyclical variability, since the case counts make even small differences significant. For the Expectations Index, the difference between the 5th and 95th percentiles of the distribution of 538 surveys from 1978 to 2021 was 46.3; meaning that the difference between peaks and troughs was 46.3 excluding extreme observations. This indicates that the partisan gap was larger under Trump and Biden than the Index's entire time-series variations from optimism to pessimism; Bush's and Obama's gaps were about half that size. When the top and bottom 20% of the income distribution were compared, the Trump gap was just 11.3 and Biden was only 11.9. The gap between those 35 or younger and those 65 or older was just 4.7 under Trump and a somewhat higher at 17.2 under Biden.

The gaps shown below generally rise over time, although the largest gaps were established by Trump and continued under Biden. Importantly, the partisan gaps were larger than the income and age gaps, with the sole exceptions of nominal and real income expectations where the age and income gaps were larger; these evaluations are likely to be formed by private information rather than public media. The partisan gaps were the largest for news heard about the economy and for the near and long term economic prospects. For inflation and interest rate expectations the partisan gaps were quite small in relation to the gap from cyclical peaks to troughs, although generally still higher than the income and age gaps. It was somewhat surprising that the partisan gap on unemployment prospects dominated the income and age gaps as well as the cyclical range. Overall, the data provide clear evidence that partisanship now dominates the more traditional income and age relationships.

Impact of Partisan Gap on Economic Expectations											
	Index of Consumer Expectations	Economic News Heard	Year Ahead Outlook for Economy	Long Term Outlook for Economy	Assessment Economic Policies	Year Ahead Expectations					
						Personal Finances	Nominal Income	Real Income	Price Expectations	Unemployment Expectations	Interest Rate Expectations
Partisan Gap (Democrat vs Republican)											
Bush	21.3	24	35	38	59	14	0.5	15	1.3	17	14
Obama	25.0	55	45	41	72	17	0.7	14	0.6	31	5
Trump	53.1	102	94	96	91	29	1.3	26	1.0	69	12
Biden	52.3	102	86	83	106	45	2.2	34	2.3	67	17
Income Gap (Top 20% vs Bottom 20%)											
Bush	10.3	29	0	28	17	15	3.0	42	1.3	4	24
Obama	10.4	8	10	20	6	13	1.8	34	1.1	12	3
Trump	11.3	6	19	17	23	11	2.2	46	0.9	10	1
Biden	11.9	8	21	29	6	1	1.8	33	0.9	23	9
Age Gap (35 or younger vs 65 or older)											
Bush	13.9	1	6	4	3	48	3.5	34	0.1	3	1
Obama	19.2	9	24	11	12	45	3.2	50	0.4	1	9
Trump	4.7	17	5	12	19	36	4.5	46	0.2	12	0
Biden	17.2	9	16	5	11	49	4.6	51	1.2	6	3
Memo: Absolute gap from the 5% to 95% of 528 time series observations											
1978-2021	46.3	96	97	59	71	35	4.5	34	5.4	59	83

Note: All variables are defined as "better minus worse plus 100" except for nominal income and price expectations which were defined as percentages. Table entries indicate the absolute value of the differences among the indicated subgroups within presidential administrations. Party affiliation was measured in fewer surveys in the Bush (4,526 cases) and Obama (11,860) administrations, and regularly for Trump (27,555) and Biden (6,648).