The Effect of Presidential Political Affiliation on Economic Conditions in the U.S.

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ABSTRACT

The goal of this research is to examine the effect of presidential political affiliation on economic conditions in the US. Previous studies focus extensively on the effect of political affiliation on the stock market. We take a step further and focus on the economy more broadly by estimating the effect on stock market performance, real GDP, and the unemployment rate. We find that under Republican administrations, the change in real GDP is on average 2.97% lower than under Democratic administrations. However, we find no significant evidence of a correlation between presidential political affiliation and the unemployment rate or stock market performance. Our findings support findings from previous research and are important in showing how general views on the strong effect of partisan politics on the economy might be overstated.

INTRODUCTION

As the Presidential election of 2020 is nearing, voters start paying closer attention to Donald Trump's first term in office. Many of the current models predicting the outcome for the 2020 election see him as a clear winner (Stein, 2019). One of Trump's key advantages is the state of the economy. Since the second world war no president has failed to win a reelection with an unemployment rate under 7.4%. During Trump's administration the rate has been consistently and significantly below that. Casselman & Tankersley (2020) point out that there's strong polarization between Republican and Democratic voters, leading to the growing importance of gaining votes from the "independents", who don't identify on either side of the aisle. These voters put a lot of weight on the economic performance of the incumbent's administration. Hence, the presidential administrations have a strong incentive to improve economic conditions.

The effect of presidential political affiliation (Republican vs. Democrat administrations) on the stock market, has been widely studied in past literature. We add to the literature by examining stock market performance, real GDP growth rates and changes in unemployment rates for a sample of presidential administrations post World War II. We examine whether there are clear trends for Republican vs. Democratic administrations on changes in these key economic variables.

We use a time-series model and find a significant connection between presidential party affiliation and the real GDP. However, we fail to find such connection between the party affiliation and unemployment rate or stock market performance. These findings are important in showing us how impactful the party affiliation of a ruling administration can be for the economy, but also how in some cases the effect might be overstated.

MODEL

Our time-series model for examining the effect of presidential political affiliation on the three key variables is as follows,

$$Y_t = \beta_0 + \beta_1(x_{1t}) + \beta_2(x_{2t}) + \beta_3(x_{3t}) + Z_t + u_t$$

$\mathbf{Y_t}$**:** Level real GDP, change in real GDP, Unemployment rate, S&P 500 performance.

$\mathbf{X_{1t}}$**:** Dummy variable that equals 1 for Republican presidents (Republican)

$\mathbf{X_{2t}}$**:** Variable for margin of victory of a candidate (Margv).

$\mathbf{X_{3t}}$**:** Dummy variable equal to 1 for incumbent presidents (Incumbent).

$\mathbf{Z_t}$**:** Vector of variables.

DATA

Summary Statistics	Observation	Mean	Standard Deviation	Minimum	Maximum
Republican	51	0.529411	0.5041008	0	1
Margv	51	0.7047647	0.1556152	0.5037	0.9758
Incumbent	51	0.3529412	0.4826398	0	1
GDP	51	7781.589	5831.016	474.04	19519.42
Unemployment	51	5.984314	1.617699	3.5	9.7
S&P 500	51	8.192353	15.1773	-38.5	34.11
csh_i	51	0.2512682	0.023264	0.1946863	0.2925392
Grad	51	21.08804	7.416407	7.6	33.4
Stock	51	86.69232	11.25066	63.75	107.575
CP	51	580.2116	584.4314	30.31325	1857.164
rgdpe	51	9978625	4404658	2955121	1.78E+07
lag_rgdpe	50	9822092	4303697	2955121	1.75E+07

Our sample consists of presidencies between 1957 and 2016 with our election data (electoral votes, popular votes, margin of victory, incumbency) coming from the NARA. The data on real GDP comes from the BLS and we use the S&P 500 annual results for measuring stock market performance. We also exclude the first term of President Kennedy and the second term of President Nixon in our sample due to their abrupt endings.

RESULTS

	Regression for Real GDP (rgdpe)	Regression for Change in Real GDP (crgdp)	Regression for Unemployment	Regression for S&P 500
Republican	**-145283.1****	**-2.965059****	**0.3457017**	**-6.335075**
	(-63517.98)	(1.27991)	(0.4122124)	(4.361898)
Margv	**-542609.8*****	**-1.486883**	**4.480191*****	**17.81743**
	(-210294.7)	(3.419571)	(1.50478)	(17.2653)
Incumbent	**1.59265**	**1.59265**	**-1.434764****	**0.6244427**
	(0.7197908)	(0.7197908)	(0.6127364)	(5.410026)
lag_rgdpe	**0.0923442*****	-	-	-
	(-0.0421655)	-	-	-
lag_crgdpe	-	**-0.0296384**	-	-
	-	(0.0955485)	-	-
csh_i	**34.69574**	**34.69574**	**-6.813986**	-
	(25.37757)	(25.37757)	(12.76241)	-
Grad	**41441.29**	**-0.2470286**	-	-
	(-26415.58)	(0.1322191)	-	-
pop	-	-	**0.0187798**	-
	-	-	(0.0087183)	-
Stock	-	-	-	**-0.1661004**
	-	-	-	(0.224771)
CP	-	-	-	**0.0013001**
	-	-	-	(.0054256)
_cons	**13350.81**	**2.4401**	**0.0450574**	**12.41405**
	(-569478.8)	(7.694762)	(5.403371)	(26.14462)
/sigma	**171056.3**	**3.292179**	**1.343825**	**14.3601**
	(-18217.37)	(0.816868)	(0.1603924)	(1.758756)
Observation	50	49	51	51
Adjusted R^2	0	0.0016	0.0002	0.5448

CONCLUSION

In our research we find a clear connection between the political affiliation of a president and real GDP. Republican administrations see on average a 2.97% smaller increase in real GDP. However, we find no connection between presidential political affiliation and stock market performance or the unemployment rate.

The significance of our findings comes from the effect that they could have on election outcomes. The increasing importance of capturing the votes of "independents" in presidential elections puts an emphasis on the economic track record of incumbent candidates. Past research shows biases backed up by general misunderstanding of the role presidential political affiliation has on the economy. Correcting these misunderstandings could help people vote for better representation of their needs.