Minerva Research Institute

Literature Review

US PRESIDENTIAL PARTISANSHIP AD THE ECONOMY

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Authors: Lipek, F. & Mateusš , M

Supervisor: Thomas Conzelmann

Abstract

This paper explores the relationship between the political party of U.S. presidents and key economic indicators, inviting readers to consider how partisan leadership might correlate with economic trends. While the U.S. economy is a vast and multifaceted system influenced by countless factors, we focus on identifying any consistent shifts that might align with presidential partisanship, without implying causation. Rather than claiming that political affiliation drives economic outcomes, we present an analysis that highlights recurring patterns worth considering. Through this approach, we aim to offer fresh insights into the intersection of politics and economics.

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1. Introduction

The US's global economic leadership spans for nearly eight decades by conservative assessment (Ghizoni, 2013) and already more than a century according to more optimistic views (Zakaria, 1999). The country's economy experienced booms and bursts during that time, but it remains one of the strongest in the world. Since 1947[1], there were seven Republican and seven Democratic presidents that in total served 20 presidential terms. Among Republicans, four presidents served two terms, and among Democrats those were only two. This almost equal split of power between two major parties in this time period gives us the ability to compare their performance on affecting the country's economy more objectively. However, it should be noted that the evolution of economic variables mentioned in this report is more complicated and depends on many other factors than just the partisanship of the incumbent president. Therefore, we aim to explore the association between the president's partisanship and the development of these variables, rather than establishing a causal relationship. This association is intriguing in terms of understanding how the incumbent president's partisanship may influence the U.S. economy. Demonstrating causality would require a more rigorous quantitative analysis and a broader scope than what is feasible within the constraints of this study. The research question addressed in this paper is, hence, how the partisanship of the incumbent president correlates with the US economy. The paper will start with an overview of the change in the GDP and inflation, continue with the labour-related variables, then will look at various business indicators and will make a short conclusion.

2. Background information: Congress Split

To better understand the extent to which presidents could achieve their campaign promises, it is helpful to examine the composition of Congress during their terms. Figure 1 illustrates the proportion of Republicans and Democrats in the U.S. House of Representatives from 1947 to 2023, while Figure 2 depicts the corresponding party distribution in the U.S. Senate. Although there were occasional shifts in the balance of power after Congress was elected, these changes were generally minor. When the initial composition of Congress was closely divided between the two parties, subsequent adjustments tended to bring about an even more balanced distribution. For example, during the final two years of the Truman administration, the Senate initially had a slim Democratic majority of just two votes. However, by the end of that congressional term, the balance had shifted to a one-vote Republican majority. In such cases, a narrow two-vote majority offers little more advantage than a one-vote minority.

Over the time of the observations, the House was more often with Democratic majority than with Republican – 26 times versus 13. Democrats also had a majority in the Senate more often than Republicans – 22 times versus 15 plus 2 times when the Senate was equally split between the two parties – in 2001, or there was no clear majority of either of two dominating parties because of independent members – in 2007.

The Democratic Party held a narrow one- to two-vote majority in the Senate on three occasions: after the 1951 election during President Truman's (Democrat) term and after the 1955 and 1957 elections, when President Eisenhower (Republican) took office. There were only two instances when the Republicans had such a slim majority: after the 1953 election, during the first half of President Eisenhower's first term and after the 2023 midterm election, when President Biden already occupied the office.

The situation in the House was more straightforward. From 1955 to 1993, it consistently maintained a strong Democratic majority. Since 1995, the majority has swung between the two parties more frequently. For example, during most of President Bush Jr.'s term, the House had a Republican majority; in the first half of President Obama's first term, it had a Democratic majority and the rest of the term it had more Republicans in the House than Democrats.

[1] Due to limitations in data availability, we, at best, align with a more conservative view. On some occasions in this paper, we refer to even shorter periods than that due to limitation of available data for specific series.

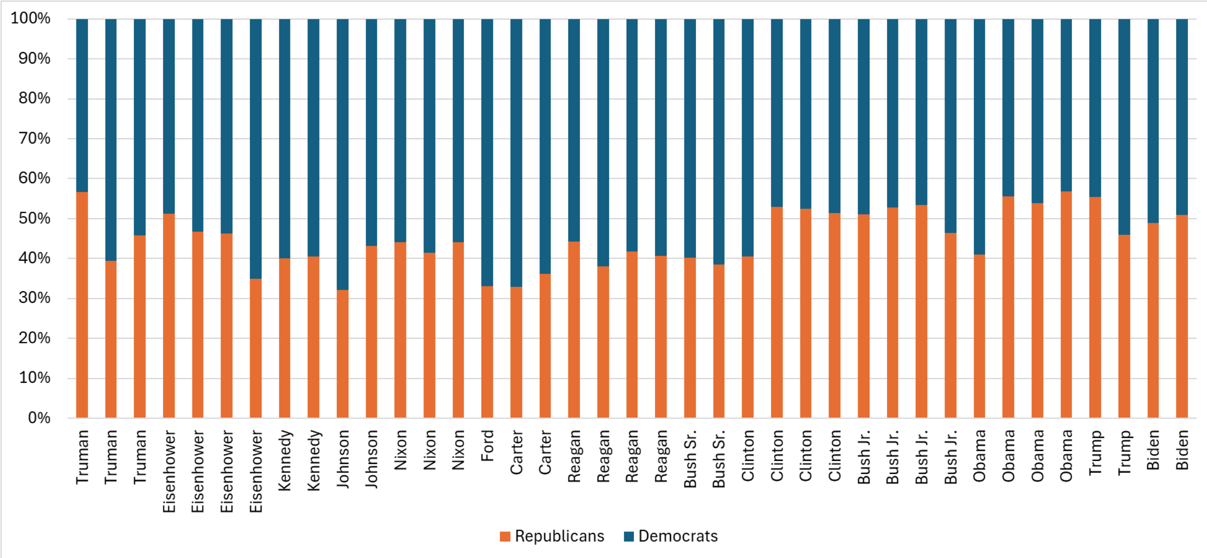

Figure 1. Trends in U.S. House Partisan Composition (1947–2023)

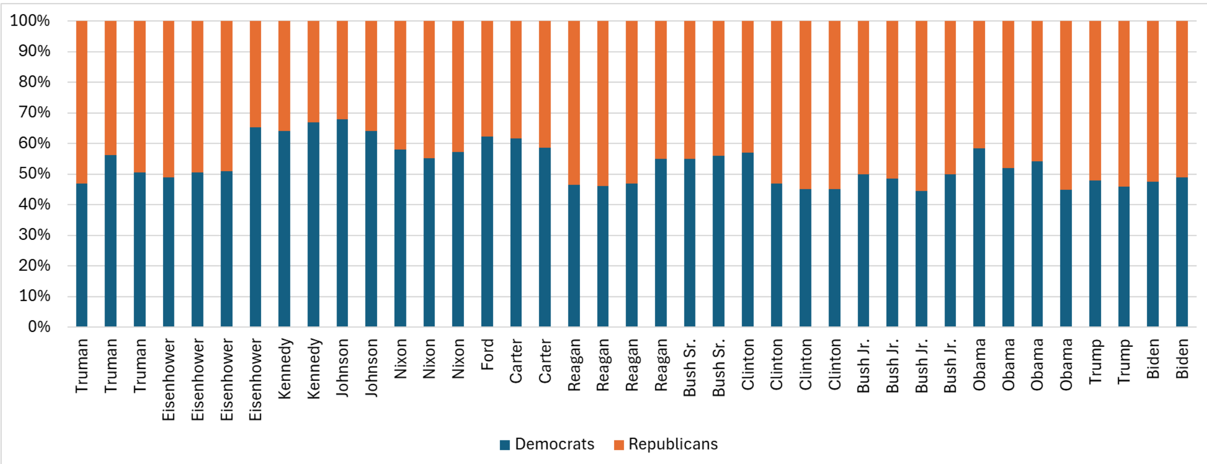

Figure 2. Trends in U.S. Senate Partisan Composition (1947–2023)

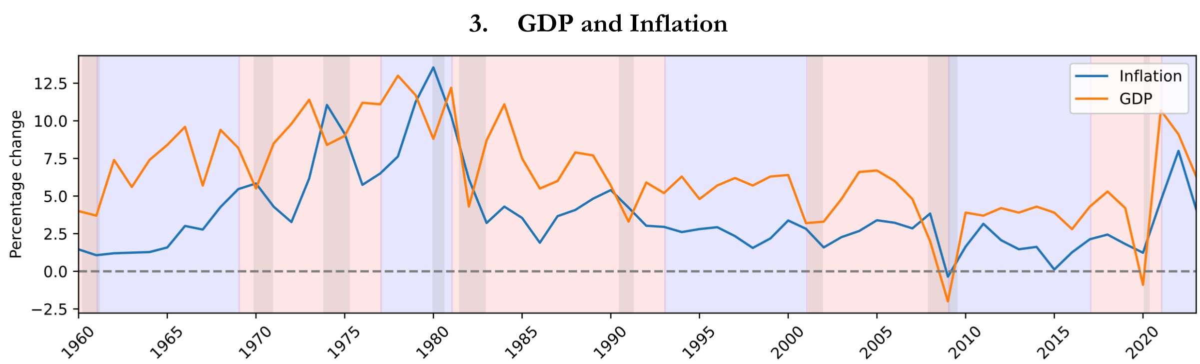

Figure 3. GDP and Inflation (1958-2023)

Note: annual data. Blue and red shaded areas indicate the time period when the US president was a Democrat and Republican, respectively, and grey shaded areas indicate the time periods of recessions. *Source:* FRED.

GDP and inflation are two fundamental indicators used to assess the health and stability of an economy. GDP measures the total value of goods and services produced within a country, reflecting economic growth and productivity. High GDP growth often signals a robust, expanding economy, while low or negative growth can indicate economic contraction. Inflation, on the other hand, tracks the rate at which prices for goods and services increase, representing changes in the purchasing power of currency. Generally, moderate inflation is expected in a growing economy, as it reflects rising demand. However, excessive inflation can reduce the value of money and erode consumer purchasing power, while very low inflation or deflation can signal economic stagnation. Together, GDP and inflation provide insights into both economic expansion and price stability, offering a view of the broader economic conditions under different presidential administrations (Blanchard and Sheen, 2013).

All but 1 recession in the last 6 decades took place under Republican presidency. On the remaining 1 of 9 occasions the office was occupied by the Democratic President – Jimmy Carter – at the time when recession unfolded. The longest recession was the Great Recession in 2007-2009 (1 year 6 months), under President George W. Bush, the shortest one was Covid-19 recession (2 months) when President Trump occupied the office. The deepest recession highlighted was related to the Covid-19 restrictions (-19.2 percent peak to trough) and the mildest one was the dot-com bubble burst, which caused recession in the early 2000's (-0.3 percent peak to trough), when Bush Jr. just entered the White House.

Except for only 1 presidential term, Republicans usually were able to gain higher GDP growth than Democrats. That one exception is Ronald Reagan, though it should be emphasized that it was rather economically sustainable to bring GDP growth down from extremely high levels. From that perspective, the blame for the decline in GDP growth when President Reagan took office lies more with his predecessors. Furthermore, on majority of occasions, after the Democrat left the office for Republican counterparty, the latter were more often able to achieve faster economic growth than vice versa.

No clear effect of partisanship of the president on inflation. Prices rose in an accelerating manner since the beginning of observation in the late 1950s under both Democrats and Republicans. It returned to significantly lower rates only in the mid-1980s under the leadership of first Democrat and then Republican presidents in early 1980s. Since then, it stayed around 2.5-5 percent regardless of who – Democrat or Republican – occupied the presidential office.

Inflation rose more often under Republicans. 19 out of 30 years that Republicans took the presidential office the inflation was on its rise. At the same time, under the Democratic lead inflation rose in 15 out of 34 years they led the country. It is important to note that we consider inflation change rate here – that is the percentage change of inflation itself. This reflects the effort of the administration to combat price increase more effectively since a) prices rise more often than fall, b) inflation is more long-term indicator than short-term rate of inflation changes because the latter fluctuates more in the short term.

GDP growth often slows more by the end of Republican terms compared to their start, unlike Democratic terms. Apart from the stable upward trend in GDP growth from the 1960s to the late 1970s, which occurred under Presidents Lyndon B. Johnson, Richard Nixon, and Gerald Ford, in the other three instances when the country was led by a Republican president, GDP growth declined in three out of four cases by the end of their terms, compared to just one (President Bill Clinton) out of four times under Democratic presidents.

It was a Republican president who brought economic growth from an unsustainably high level in the early 1980s to an adequate level. As previously noted, it was President Ronald Reagan, and it does not seem like a coincidence that GDP growth slowed down almost as soon as he took office. However, this was accompanied by a brief recession, during which GDP contracted for two consecutive quarters. After the recession, the same Republican president quickly restored GDP growth to unsustainably high levels, but since then, it has followed a downward trend.

4. Employment and Earnings

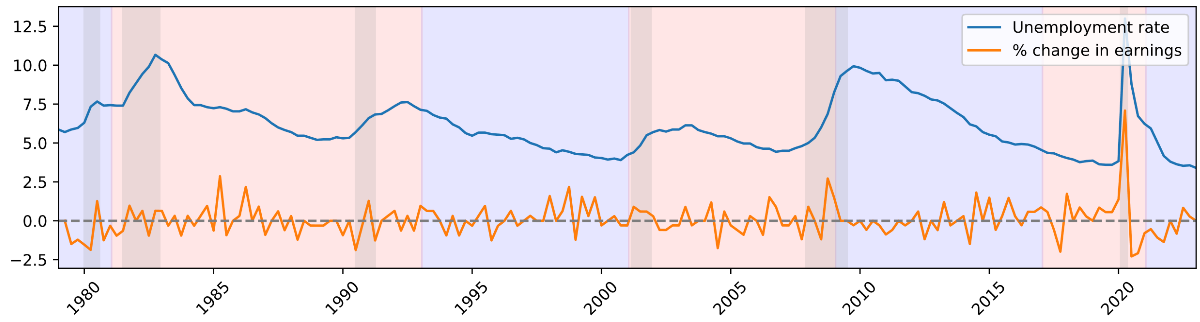

Figure 4. Unemployment rate and change in earnings (1976-2023)

Note: quarterly data. Blue and red shaded areas indicate the time period when the US president was a Democrat and Republican, respectively, and grey shaded areas indicate the time periods of recessions. *Source*: FRED.

Under 3 of 4 Republican and 1 out of 4 Democratic presidents unemployment rate increased. It looks very much like Republican winners accelerated inflation and Democrats were those who pushed it down. Notably, 2 of 4 Republican presidents since the 1980s started their terms with an increasing unemployment rate, while all Democratic presidents during the same period began with a decreasing unemployment rate.

Household earnings experienced drops in 64 percent of the Democratic leadership time versus 56 percent during Republican presidentship. Specifically, in 52 out of 81 quarters workers' earnings fell while the White House was occupied by the Democrat; the corresponding numbers for Republicans are 54 and 96. In this context, it is worthwhile noting that Democratic presidents got to deal with only 2 out of 6 recessions. Interestingly, earnings even grew during 2 recessions – in the early 2000s and in 2020.

Democrats were more consistent in decreasing the unemployment rate. Except for a short period in the late 1970s, Democratic presidents, Bill Clinton, Barack Obama, and Joe Biden, achieved a steady fall in unemployment rates throughout their terms. That's not so evident in the case of Republican presidents, who experienced frequent ups and downs.

The record-high (in both directions) change in earnings took place during the Republican presidential term. The economy experienced strange times during the COVID-19 pandemic, when the President was Donald Trump, and one of them was a surge in earnings followed by an equivalent in magnitude plunge. Nevertheless, by the end of his term, workers' earnings started to grow again at a more moderate path than recent changes they experienced.

5. State of business

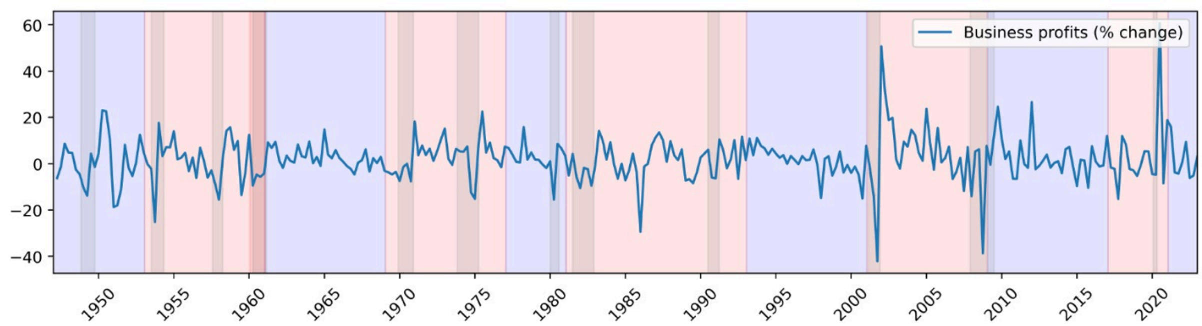

Figure 5. Business profits (1947-2023)

Note: quarterly data. Blue and red shaded areas indicate the time period when the US president was a Democrat and Republican, respectively, and grey shaded areas indicate the time periods of recessions. *Source*: FRED.

The after-tax profits of non-financial companies are a key indicator of the corporate sector's health and the overall economy. Excluding financial firms, whose performance can skew the picture, allows us to focus on the broader economic impact. While these profits can reflect the effectiveness of fiscal and monetary policies, the influence of political leadership on economic outcomes is significant but often intertwined with other external factors.

Historically, Republican administrations have been linked to a stronger rise in corporate profits, largely due to tax cuts and pro-business policies. The Reagan administration is a classic example, and more recently, the Trump administration pushed corporate profits higher through the 2017 Tax Cuts and Jobs Act, which significantly lowered the corporate tax rate. However, data from Trump's presidency is complicated by the COVID-19 pandemic, where massive government intervention and stimulus efforts affected corporate earnings. This demonstrates how external crises can overshadow or amplify the effects of political policies.

On the other hand, Democratic presidents often focus on regulatory frameworks and social justice policies that can moderate corporate profit growth. These policies tend to include higher taxes and more government intervention, which can create a more restrained business environment. However, there are exceptions, notably during the Clinton administration, which benefited from rapid technological advances and the dot-com boom of the 1990s. The Obama administration, too, presided over a steady recovery from the 2008 financial crisis, proving that while Democratic policies might slow profit growth, they can also stabilize the economy during turbulent times.

Despite the significant role of politics, it's important to acknowledge that corporate profits are also shaped by global economic conditions, trade dynamics, and technological changes. For example, the 1970s oil crisis, driven by geopolitical tensions, led to economic turmoil that no domestic policy could mitigate. Similarly, the dot-com boom in the 1990s was largely a result of technological innovation rather than political leadership. The state of the business cycle—whether the economy is expanding or contracting—also plays a major role, independent of who holds office.

Recessions, in particular, demonstrate the limits of political influence. The Great Recession, which began under George W. Bush and carried into Barack Obama's term, saw a sharp decline in corporate profits due to global economic conditions that no administration could fully control.

In evaluating corporate profit trends under different U.S. presidents, it's clear that while political leadership matters, external factors such as global markets, technological shifts, and economic cycles often have an equally strong, if not stronger, impact on the economy's performance. Nonetheless, the policy direction set by Republican and Democratic leaders can shape how businesses navigate these broader forces.

6. Conclusion

Although Democrats and Republicans repeatedly demonize each other in heated election campaigns and deny each other's competencies, the result of this paper speaks a somewhat different language. Both parties always manage to ensure growth, progress and prosperity, even if this is not done in the same way with the same beneficiaries.

The Republican approach to the U.S. is clearly centred on pro-business policies with their focus on supply side economics (also known as trickle-down economics or "Reaganonomics") and bureaucratic deregulation to drive economic growth on the business side.

Notably, Donald Trump, as a candidate, exemplified these policies, as demonstrated during his first term by the Jobs Act of 2017 and his tax cuts.

On the other side of the political aisle are the Democrats with the current Vice President Kamala Harris, who stand for a much more social economic course with the concept of Keynesian economics (demand-side economics). The Democrats want to protect consumers and employees with active regulations.

Ultimately, the U.S. economy encompasses far more than economic theory alone, and a president's ability to shape it is influenced by global events, collaboration with Congress, the Federal Reserve, and numerous other factors. Therefore, when deciding for or against a candidate, the personal ability to master unforeseen challenges and to act within the broader governmental framework to enact effective economic strategies should always be considered.

7. References

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