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# Does Political Party Determine Economic Success?

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## Does Political Party Determine Economic Success?

### Keywords

economic policy, Republicans, Democrats, partisan growth gap, external factor, macroeconomic policies

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# Does Political Party Determine Economic Success?

by Lauren Ajack

With the presidential election quickly approaching Americans are deep in debate. Economic policies are an important part of each candidate's platform and are consistently important to voters. In the past six decades, Ronald Reagan was the only Republican president to have a positive economic term. The research determines a positive economic term by unemployment rates being lower at the end of a presidential term than at the beginning. Yet research conducted by Alan Blinder and Mark Watson at Princeton University found that the economic growth gap due to choices in macroeconomic policy is not as partisan as it appears. Determining factors the researchers took into account included employment rates and GDP growth. The conclusion they made in regards to why Democrats seemed to produce thriving economies over their Republican counterparts was "pure luck" in the sense that their success was unrelated to macroeconomic policy. Democratic presidents have encountered many oil shocks, superior total factor productivity performance, a more favorable international environment, and optimistic consumers. Robert Shapiro, former undersecretary of Commerce for economic affairs, stated that "the levels of public investment in education, infrastructure, and basic non-military research under the Clinton and Reagan administrations are head and shoulders above such investments made by George W. Bush and Obama." These four presidents all had two equivalent terms yet the latter two experienced less economic success due to the external factors previously stated.

Blinder and Watson explore possible explanations for the partisan growth gap but they all prove that macroeconomic success is not due to presidential policies. The data set begins in the middle of Harry Truman's term, first quarter of 1947, through the first quarter of 2013. This includes seven complete Democratic terms and nine complete Republican terms. The real GDP growth averaged annually 3.33%, yet the average growth rate for Democrats and Republicans was 4.35% and 2.54%, respectively, resulting in a 1.80% gap (D-R gap). By looking at their econometric explanation it becomes clear that presidential successes were not determined by macroeconomic policies. Blinder and Watson used an equation developed in 1983 by James D. Hamilton, Ph.D. that measures disruptions using a nonlinear transformation of oil prices. The results show that there was large negative growth effects in the Nixon-Ford and Carter terms (OPEC) and the largest negative effect came in George W. Bush's second term when oil prices increased three-fold, which played an important role in the Great Recession. The next element taken into account was total factor productivity (TFP). Democrats have tended to inherit more favorable TFP growth than Republicans. There was sizable negative TFP under Reagan (first term), George H. W. Bush, and George W. Bush (second term). Contrary to sizable positive shocks under Truman and Kennedy. The difference in TFP alone results in a quarter of the D-R gap. Lastly, historical records show that there is a huge partisan gap in the growth rates of federal defense spending. Real military spending grew by 5.9% under Democrats but only 0.8% under Republicans. Eliminating the Truman administration (Korean War) the difference in average GDP growth decreases from 1.80 percentage points to 1.46 percentage points. This research justifies the conclusion that uncontrollable external factors are more likely to determine the outcome of the economy rather than the promised macroeconomic policies.

When Obama came into office, the economy was collapsed and has been somewhat restored from the beginning of his term. Whether this is actually due to Obama's policies or the underlying economic trends is up for interpretation. Regardless of which presidential candidate takes office next, they need to be adaptable to the country's economic needs regardless of whether it was in their platform.

Blinder, Alan and Watson, Mark (2014). "Presidents and the U.S. Economy: An Econometric Exploration," Manuscript, Princeton University.