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ECONOMETRIC RESEARCH SEMINAR

- December 18, 2008, 9:15am
- HSII
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  Stumpergasse 56, 1060 Wien

Ivan Jeliazkov,
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"Politics and Macroeconomic Performance in the United States: Cycles and Long-Run Outcomes"

One of the main empirical conclusions of the political business cycle literature is that economic growth and employment in the United States tend to fall after the election of a Republican administration, and increase following Democratic victory. Because Republican administrations also exhibit lower interest rates and inflation than Democrats, it has been argued that their constituents favor lower inflation at the expense of lower growth and employment, while Democrats are willing to bear increased inflation in exchange for lower unemployment. This article examines the joint behavior of output growth, unemployment, interest rates and inflation, and provides evidence challenging the notion that this is a static choice. In the context of a dynamic macroeconomic system that also involves election outcomes, we find that long-run Republican outcomes dominate Democratic ones on all margins (high growth and employment, low interest and inflation) -- growth is shown to reverse relatively quickly, employment adjusts more slowly, and the short-run differences in interest and inflation increase dramatically in the long-run. This finding cautions against static interpretations of partisan differences, and suggests that these differences should be viewed in an intertemporal setting in which the two parties choose different ways of balancing short-run costs and benefits with those in the long run. For the electoral part of the model, we find suggestive evidence that both economic and non-economic variables (e.g. growth, war fatalities) are relevant determinants of vote shares and can improve predictions relative to conditioning solely on economic outcomes such as growth and inflation.

with Hao (Audrey) Fang (University of California, Irvine).