Seeing the Economy through Colored Glasses: Partisanship in Macro and (not in) Micro Expectations

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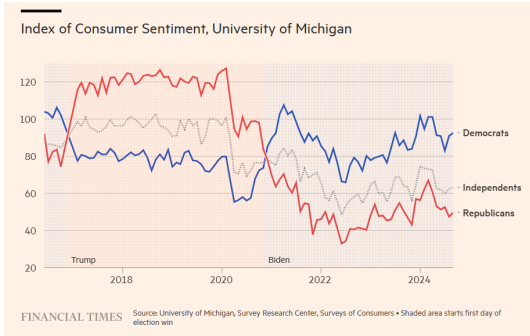
Outline

Motivation

- Since the Trump era, consumer surveys often report **starkly different views of the macroeconomy** around **political turnovers** (Kamdar & Ray, 2022; Mian *et al.*, 2021; Gillitzer & Prasad, 2018) (salient not just in the U.S.)



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- These partisan expectations can have **actual macro and financial market impacts**, e.g., monetary policy transmission (Kuang *et al.*, 2024; Stantcheva, 2024; Binder, 2023), stock investment behaviors (Meeuwis *et al.*, 2022), etc.

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  This paper: (1) links the microeconomic inequality to polarized views of the macroeconomy; (2) shows partisanship is not the source but an amplifier

This paper

- Goes beyond macro expectations:
  - → **Macro** expectations are partisan; **micro** are not
  - → **Spending** did not diverge — mirroring micro expectations
  - → **Not just recent** — pronounced in the 1980s and since 2016
  - → Various **channels** are at play: bias, sentiment, extrapolation
  - → **Policy beliefs**: viewed through a self-interested lens Stantcheva (2020, 2024)

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  - → Various **channels** are at play: bias, sentiment, extrapolation
  - → **Policy beliefs**: viewed through a self-interested lens Stantcheva (2020, 2024)
- Builds and estimates a **belief model** reconciling these patterns:
  - → macro beliefs ← personal experience × "colored glasses" (partisan lens)
  - → estimated under imperfectly observed partisan affiliation
  - → partisanship explains <**10%** of disagreement; personal experience dominates
  - → channels' importance is **time-varying**

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Data

1. Household Expectations
   - → New York Fed Survey of Consumer Expectations (SCE): 3 elections since 2016
   - → Michigan Survey of Consumers (MSC): 12 elections since 1980

2. Party Affiliation
   - → Directly reported party affiliation in MSC (only available since 2016)
   - → Augmented with **imputed affiliations** based on actual vote profile estimated from the American National Election Study (ANES) for 1980-2024 elections

Empirical methodology: imputing the party affiliation

- Estimation of voter profiles in ANES for each election in year y:

$$\Pr(\kappa_{it} = p \mid X_i) \;=\; \Phi\Big(X_i' \, \beta_p^{(y)}\Big), \qquad p \in \{\mathsf{D}, \mathsf{R}\}, \quad t = y$$

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- Imputing the affiliation in MSC/SCE for the 4-year window of the same election

$$\hat{\kappa}_{i,t} = \begin{cases} D, & \text{if } \widehat{Pr}(\kappa_{i,t} = D|X_i) > \widehat{Pr}(\kappa_{i,t} = R|X_i), \\ R, & \text{otherwise.} \end{cases} \qquad t \in \{t-1, \ldots, t+2\}$$

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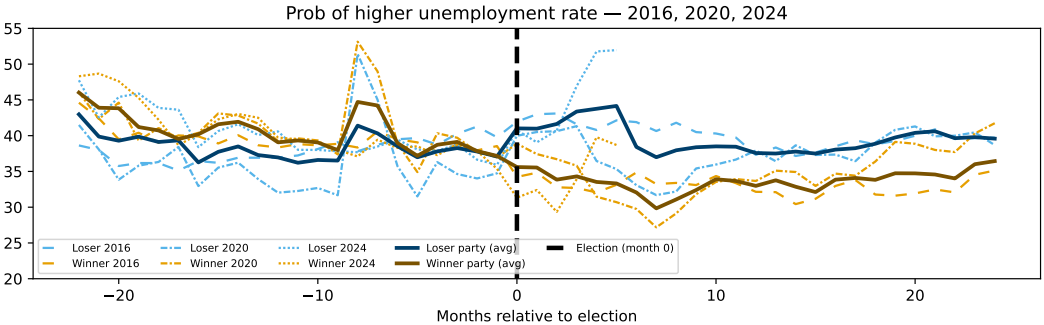
- $\Phi(\cdot)$: standard normal CDF
- $X_i = \{educ, income, gender, region, married, etc\}$
- β^y captures time-varying voter profile
- Random forest or XGBoost yield similar performances

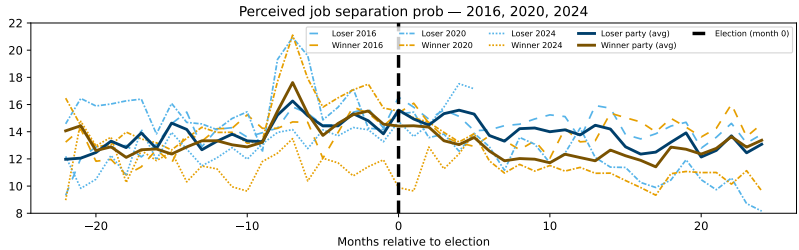
Prediction accuracy

Outline

Macro beliefs (unemployment rate) show partisan switches around turnovers



Micro beliefs (job separation and finding rate) didn't switch around turnover



Partisan expectations, 1980-2025

(a) Unemployment rate, 1980-2025

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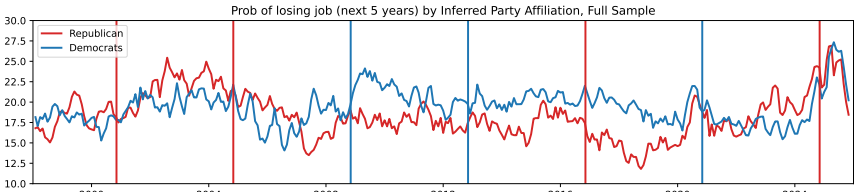
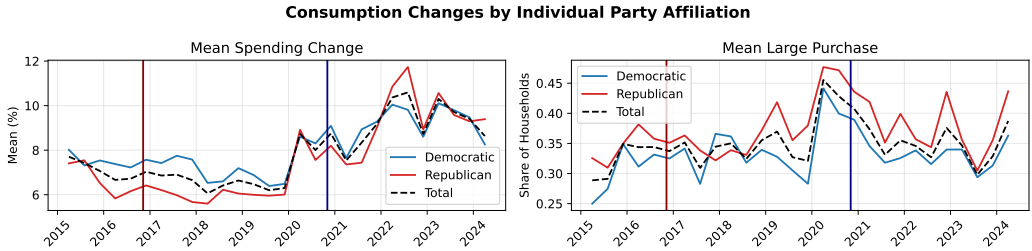


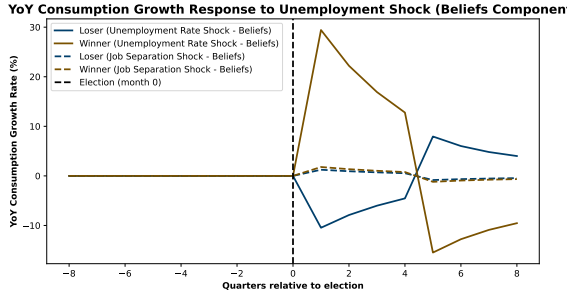
(b) Probability of losing job, 1998-2025

No sudden switch in actual spending patterns around turnovers



- Naturally explained by the non-divergence in micro expectations
- Echoes Mian *et al.* (2021): no divergence in actual consumption despite partisan polarization in sentiment

HA-Model implied consumption responses using beliefs



- Feed winner/loser belief shifts through a heterogeneous-agent model
- **Macro** shock = unemployment (*solid*); **micro** shock = job separation (*dashed*)
- **Macro** beliefs $\Rightarrow$ large divergence; **micro** beliefs $\Rightarrow$ negligible

$\Longrightarrow$ Consumption tracks **micro** beliefs $\Rightarrow$ spending barely diverges

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A factor model of beliefs

- Household i has a given partisan preferences $\kappa_{i,t} \in \{D, R\}$

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$$z(s_{i,t}, \kappa_{i,t}, x_{i,t}) = \underbrace{\mathbf{1}(\kappa_{i,t} = D)\omega}_{\text{partisan bias}} + \mathbf{1}(x_{i,t} = 1) \underbrace{z^{up}(s_{i,t})}_{=\alpha^{up}+\lambda^{up}s_{i,t}} + \mathbf{1}(x_{i,t} \neq 1) \underbrace{z^{down}(s_{i,t})}_{=\alpha^{down}+\lambda^{down}s_{i,t}} + \zeta_i + \phi_t + \varepsilon_{i,t}$$

- $\alpha^{up}; \alpha^{down}$: sentiment shift
- $\lambda^{up}; \lambda^{down}$: extrapolation

Modeling mislabeling

- Our partisanship flag $\hat{\kappa}_{i,t}$ is only a noisy and potentially mis-labeled measure of the true type $\kappa_{i,t}$
- We model the labeling error explicitly

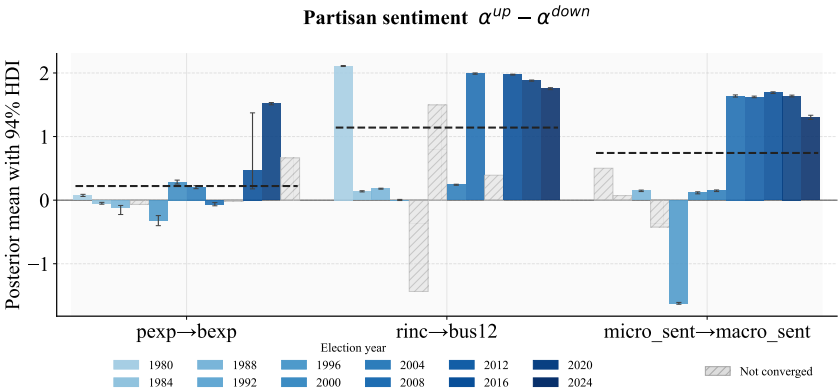
$$\kappa_{i,t} \sim \text{Bernoulli}(p)$$

- Define false-negative and false-positive rates as

$$e_1 = P(\hat{\kappa}_{i,t} = R \mid \kappa_{i,t} = D), \qquad e_0 = P(\hat{\kappa}_{i,t} = D \mid \kappa_{i,t} = R).$$

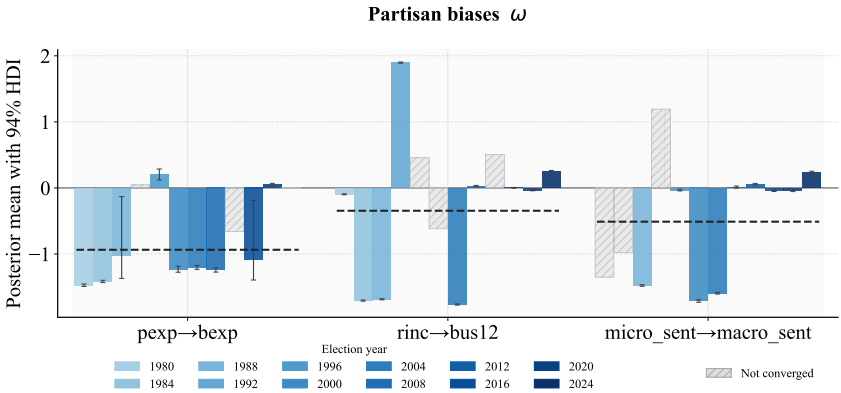
- We estimate belief parameters $\Gamma = [\lambda^{up}, \lambda^{down}, \alpha^{up}, \alpha^{down}, \omega]$ and p, e_0, e_1 jointly using Bayesian methods

Estimation result: sentiment shift ($\alpha^{up} - \alpha^{down}$)



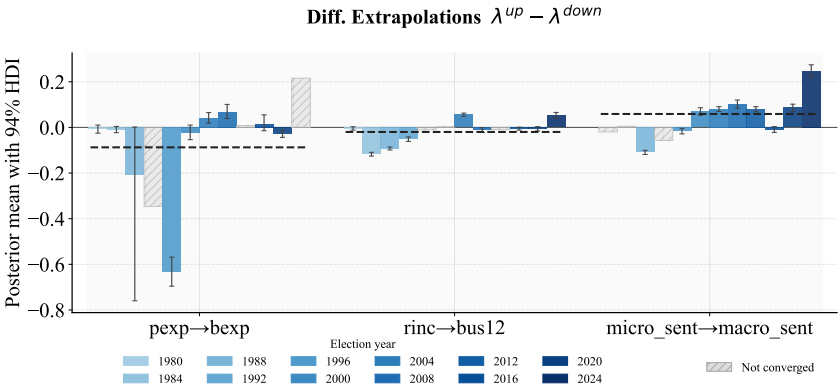
$\Longrightarrow$ A positive sentiment drift for the incumbent party

Estimation result: partisan bias (ω)



$\Longrightarrow$ Democrats are more pessimistic

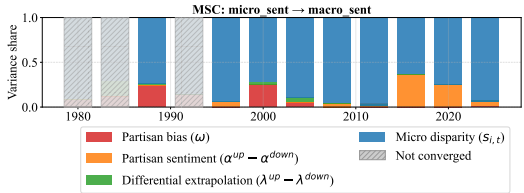
Estimation result: extrapolations ($\lambda^{up} - \lambda^{down}$)

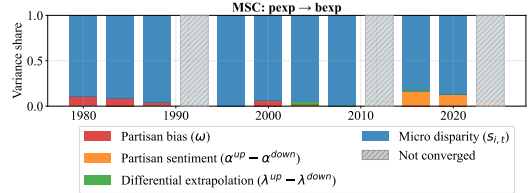


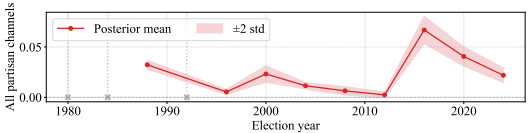
$\Longrightarrow$ Different extrapolations between the incumbent and opposition parties

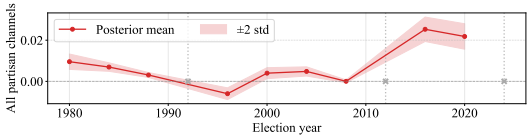
Time-varying importance of partisanship versus micro disparity

- The fraction of macroeconomic expectation variation explained by our model





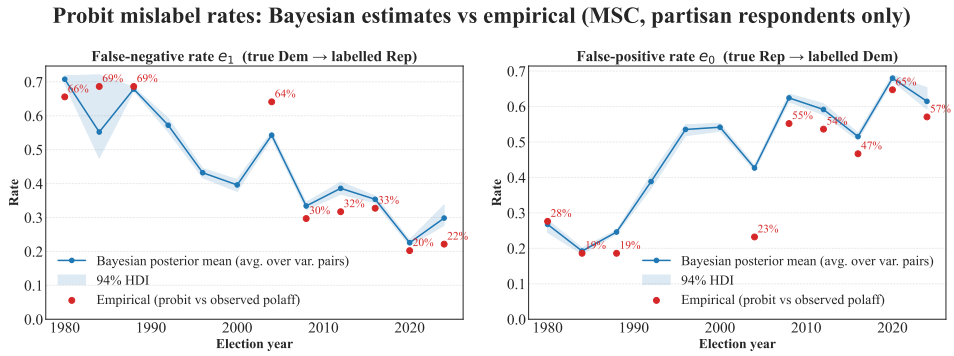




$\Longrightarrow$ Partisanship was not a new phenomenon

$\Longrightarrow$ But the recent 3 elections since 2016 did see intensified partisan patterns

An external validation: model-implied error rates versus actual



- Model estimates of the error rates match closely with the actual error rates
- The model increasingly over-classifies individuals as Democrats

Outline

From views of the macroeconomy to views of policy

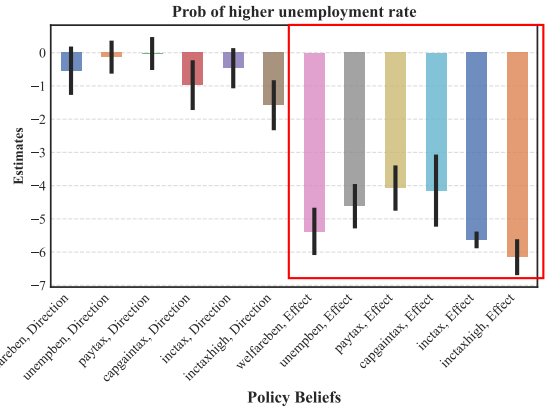
- Data: SCE's **Public Policy Survey (PPS)** on **6 policies**[1]:
  - → **PolicyDirection**: expected expansion/reduction ($+1/-1$, 0 no change)
  - → **PolicyEffect**: expected impact on *own* welfare ($+1$ beneficial, -1 harmful, 0 none)
- Regression on SCE data, 2016 and 2020 elections:

$$\text{Belief}_{it} = \alpha_0 + \alpha_1 \text{PolicyDirection}_{jit} + \alpha_2 \text{PolicyEffect}_{jit} + Controls_i + \varepsilon_{it}$$

- α_1: macro impact of a policy change
- α_2**: key parameter of interest** – $\alpha_2 = 0 \Rightarrow$ impartial policy views; $\alpha_2 \neq 0 \Rightarrow$ **self-interest** motive distorts macro policy views

[1] Welfare benefits, payroll tax, unemployment benefits, capital gains tax, income tax, and top-bracket income tax.

Policy views formed through a self-interested lens



$\Longrightarrow$ Households believe policies that are beneficial to them as beneficial to the entire economy

More results

Outline

Conclusion

- We show that household **macro** beliefs are **more partisan** than **micro** beliefs
- We build a model of “seeing the economy through **colored glasses**”
- Our model estimation shows how partisan expectations **evolve over time** and operate via **different channels**
- We highlight the central role of **personal economic experiences**

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Outline

Appendix: Results

Prediction accuracy of the imputation

MSC imputations (%)	2004	2008	2012	2016	2020	2024
True Positives	**18.74**	**35.84**	**32.02**	**34.55**	**40.70**	**40.87**
True Negatives	**35.02**	**20.73**	**23.13**	**25.56**	**17.08**	**19.79**
False Positives	11.64	27.23	22.93	23.27	31.93	26.05
False Negatives	34.60	16.20	21.93	16.62	10.29	13.29
Correct imputation	**53.76**	**56.57**	**55.15**	**60.11**	**57.78**	**60.66**
Regions-only imputation	48.51	50.39	53.94	47.88	47.85	50.71
Obs.	**971**	**5,759**	**1,496**	**10,707**	**18,170**	**10,571**

Role of policy expectations - more results

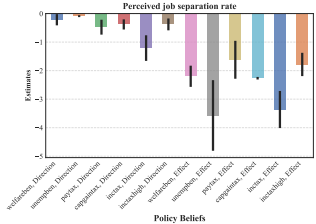

Figure: Job Separation Rate

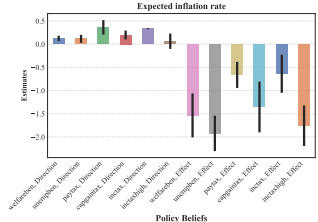

Figure: Inflation Rate

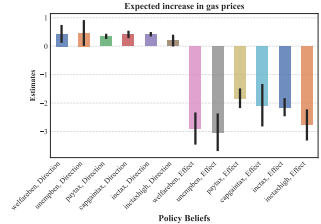

Figure: Gas Prices

- Across all policies, expecting personal benefits from a given policy is associated with more positive macroeconomic expectations.

Partisan bias, sentiment, and extrapolation

- We differentiate between:
  1. partisan bias in average expectations
     - e.g., one party is consistently more pessimistic than the other
  2. political sentiment in expectations after month (November) of presidential election
     - e.g., the winning (losing) party is more optimistic (pessimistic) than the other
  3. belief extrapolation from micro to macro expectations
     - e.g., the winning and losing party “interprets” the same information differently

Partisan bias, sentiment, and extrapolation - specification

- We quantify the partisan bias and sentiment by running panel regressions for individual i and month t for each election cycle

$$\begin{aligned}\text{MacroBelief}_{it} = \alpha_0 + \alpha_1 \text{Dem}_i + \alpha_2 \text{Win}_i + \alpha_3 \text{PostElect}_t \\ + \alpha_4 \, \text{Win}_i \times \text{PostElect}_t + \alpha_5 \text{MicroBelief}_{it} + \text{Controls}_i + \varepsilon_{it}\end{aligned}$$

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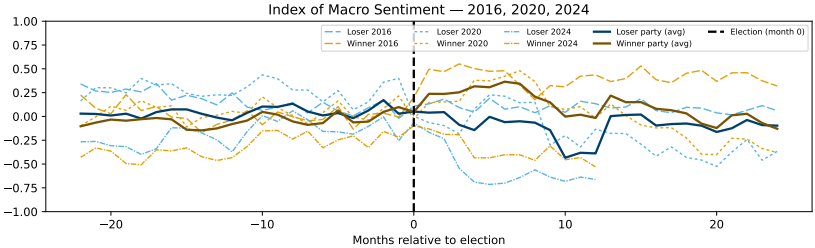
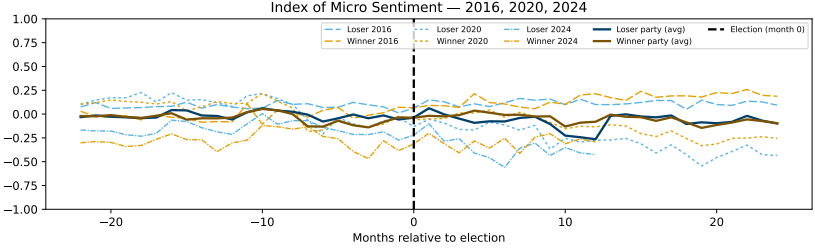
- $\alpha_1 \neq 0$ implies partisan bias in beliefs
- $\alpha_4 \neq 0$ implies partisan sentiment after the election ($PostElect_t = 1$)
- α_5 captures belief extrapolation from micro to macro

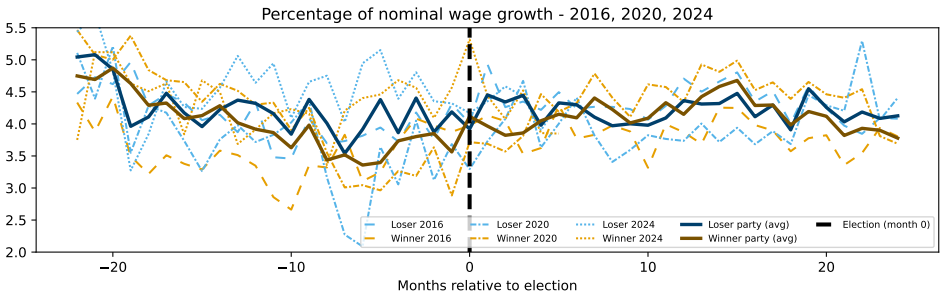
Regression evidence

Macro vs *micro* indicators from MSC by party





No partisan shifts in nominal wage/income expectations



Partisan bias, sentiment, and extrapolation - results

Dep Var Micro Var	MSC Macro Index (1)	MSC Macro Index Micro Index (2)	MSC Bexp (3)	MSC Bexp Pexp (4)	SCE Unemp (5)	SCE Unemp Job Sep (6)	SCE Unemp Job Find (7)	SCE Inflation (8)	SCE Inflation Gas Price (9)	SCE Inflation Rent (10)
Dem	-5.500**	-7.859***	-0.033	-0.040*	0.937	1.249	1.047	-0.514***	-0.345	-0.364
	(2.431)	(2.649)	(0.022)	(0.023)	(1.704)	(1.888)	(2.090)	(0.176)	(0.303)	(0.256)
Win	-16.360***	-13.698***	-0.051**	-0.043***	-1.450**	-1.138	-1.225*	-0.270	-0.176	-0.168
	(2.534)	(1.932)	(0.021)	(0.013)	(0.600)	(0.764)	(0.693)	(0.285)	(0.263)	(0.185)
postElect	-27.817*	-16.129***	-0.126*	-0.091**	5.967***	5.311***	5.961***	1.182***	1.468***	0.997***
	(16.538)	(5.147)	(0.069)	(0.038)	(0.431)	(0.398)	(0.442)	(0.266)	(0.234)	(0.155)
Win × postElect	31.944***	27.856***	0.158***	0.130***	-8.008***	-8.624***	-9.370***	-3.095***	-1.955***	-1.663***
	(4.873)	(3.715)	(0.037)	(0.022)	(1.086)	(1.136)	(1.063)	(0.725)	(0.423)	(0.403)
Micro		0.941***		0.428***		0.242***	-0.013		0.207***	0.319***
		(0.028)		(0.029)		(0.013)	(0.011)		(0.046)	(0.016)
Controls	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES
Adj. R^2	0.063	0.239	0.039	0.172	0.021	0.060	0.022	0.076	0.130	0.165
N	51949	51949	51949	51949	130924	79506	79528	128334	110456	110446

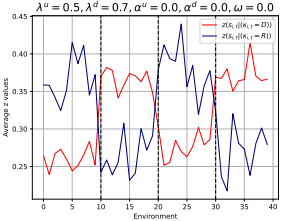
⏩ News

Controlling for the role of macro news

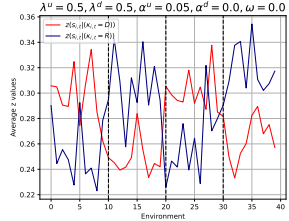
Dep Var	MSC	MSC	MSC	MSC	MSC	MSC	MSC
	Macro Index	Macro Index	Unemp	Unemp	Inflation	Inflation	Inflation
Micro Var		Micro Index		Job Separation		Gas Price	Nominal Income
News Var		All News		Employment News		Inflation News	Inflation News
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Dem	-5.500**	-4.197	0.038**	0.039*	-0.070	-0.027	-0.018
	(2.431)	(3.731)	(0.019)	(0.020)	(0.337)	(0.392)	(0.320)
Win	-16.360***	-10.387***	0.063***	0.056***	0.025	0.049	0.038
	(2.534)	(1.970)	(0.002)	(0.002)	(0.307)	(0.244)	(0.240)
postElect	-27.817*	-13.614***	0.068	0.059	1.735	1.724**	1.541
	(16.538)	(4.390)	(0.050)	(0.044)	(1.093)	(0.707)	(0.953)
Win $\times$ postElect	31.944***	21.756***	-0.144***	-0.131***	-0.435	-0.594	-0.469
	(4.873)	(4.595)	(0.022)	(0.020)	(0.469)	(0.442)	(0.407)
Micro		0.770***		0.168***		0.029***	-0.031**
		(0.017)		(0.014)		(0.004)	(0.014)
News		42.944***		-0.142***		-1.362***	-1.485***
		(2.328)		(0.025)		(0.280)	(0.120)
Controls	YES	YES	YES	YES	YES	YES	YES
Adj. R^2	0.063	0.309	0.056	0.093	0.063	0.115	0.073
N	51949	51949	51949	51949	51365	29226	47025

Model mechanisms behind the expectation shift around an election turnover

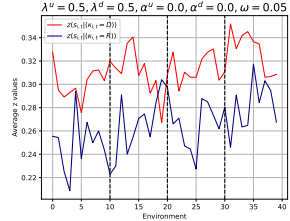
Figure: Group-specific macroeconomic expectations simulated under different parameter values



(a) $\lambda^{up} \neq \lambda^{down}$



(b) $\alpha^{up} \neq \alpha^{down}$



(c) $\alpha^{up} = \alpha^{down}$, $\lambda^{up} = \lambda^{down}$

- Either $\lambda^{up} \neq \lambda^{down}$ or $\alpha^{up} \neq \alpha^{down}$ can generate partisan switching around turnovers

Real household income expectations

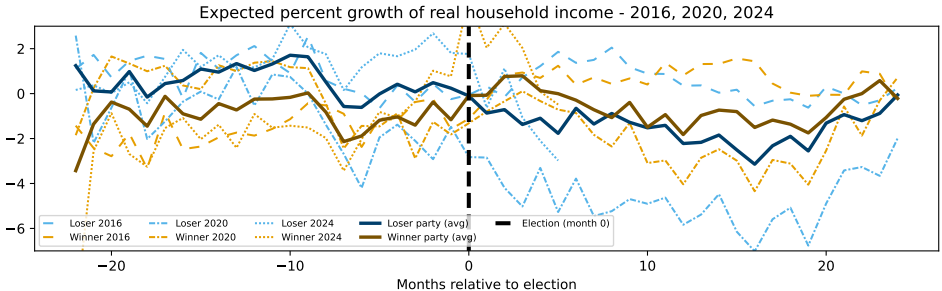


Figure: Mean expected percentage of real household income growth by party, individual-level data Back