THE CONSEQUENCES OF PARTISANSHIP IN ECONOMIC PERCEPTIONS

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Abstract  We investigate the role of economic perceptions in macro-political analyses, with a particular focus on the role that partisanship might play in shaping consumer sentiment. Instead of taking consumer sentiment at the fully aggregated level, as is customary, we disaggregate by party in order to see the effects of partisanship on over-time evaluations of the economy. Analyzing four presidential administrations’ worth of public opinion data, we find that differences in Republicans’ and Democrats’ beliefs about the changing economy do not cancel in the aggregate. Furthermore, our macroanalysis shows that the endogeneity of consumer sentiment to partisanship leads to a clear overestimate of the role of consumer sentiment on approval of the president’s handling of the economy.

It has long been thought that partisan attachments provide a perceptual filter for information about politics. In fact, the “minimal effects” school of campaigns begun by Columbia researchers in the 1940s started from the notion that the high-information nature of presidential campaigns would activate the partisan defenses of the masses, thereby rendering the events of the campaign ineffec-tual. Nowhere was this assertion more clear than in the influential “funnel of causality” in *The American Voter*, which placed partisanship at the very focal

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point of an individual’s political world (Campbell et al. 1960). A variety of important but particularistic forces shaped an individual’s partisan identification, but, once formed, this psychological attachment to a party structured subsequent attitudes and behavior. The attachment to a political party became the lens through which other political decisions were seen. In particular, in the classical formulation, partisanship shaped policy attitudes, candidate evaluations, and the vote itself. To the extent that there is an unmoved first mover in the study of American political behavior, it is partisanship.

Campbell et al. also recognized that partisanship structured what they called *economic outlook*, with similarly situated Republicans and Democrats espousing systematically different views on the economy. Reacting to the recession during the second Eisenhower Administration, for example, Campbell et al. wrote that “Partisanship drove . . . Democrats . . . to criticism and pushed . . . Republicans . . . into positions of support” (1960, p. 389). People see most things—even those where some objective reality exists, like the economy—through partisan lenses.

The unmoved-first-mover status of partisanship unraveled rather abruptly. MacKuen, Erikson, and Stimson (1989), in shifting the level of analysis from the individual to the public as a whole, reversed the causal arrow. Whereas the traditionalist view held that partisanship was exogenous to economic outlook, MacKuen, Erikson, and Stimson showed precisely the opposite: Aggregate shifts in economic outlook—along with shifts in presidential popularity (which were themselves caused by economic outlook)—caused *macropartisanship* to ebb and flow.

The macropolitics canon, so to speak, has evolved out of this key reversal of the causal flow. Economic outlook—or, as it is typically called nowadays, *consumer sentiment* is (to exaggerate only a bit) the new unmoved first mover. It finds itself, treated exogenously, on the right-hand side of countless models of macropolitical reality in the United States. In addition to partisanship, studies of the effects of consumer sentiment on policy mood (Durr 1993), election outcomes (Erikson, MacKuen, and Stimson 2002), and trust in government (Keele 2005, 2007; Hetherington and Rudolph 2008) have abounded in recent years. None of this work to date allows for the possibility that partisanship serves as a filter for aggregate economic attitudes.

In this article, we examine this question of the exogeneity of economic perceptions in macropolitical analysis and the role partisanship might play in shaping these perceptions. We utilize four presidential administrations’ worth of public opinion data, showing that how Republicans and Democrats in the mass public process information about the economy depends critically on which party occupies the White House. Instead of taking consumer sentiment at the fully aggregated level, we examine the dynamics of consumer sentiment *by party* in order to see the effects of this powerful psychological attachment on the over-time evaluations of the economy. Thus, we restore the role party attachments play in shaping (rather than merely being shaped by) the public’s
views on the economy. Our analysis shows that the role of partisanship in economic perceptions is substantial and that it has important analytic implications in the study of macropolitical opinion. Specifically, an analysis of approval of the president’s handling of the economy shows that the endogeneity of consumer sentiment to partisanship (i.e., partisanship influences both the dependent and independent variables) leads to a significant overestimate of the impact of consumer sentiment on public opinion.

The Role of Partisanship in Economic Evaluations

Are economic perceptions exogenous? To answer this question in the affirmative is to put economics above politics—that is, for economic perceptions to be exogenous in political judgments, they must be outside the political and social context in which they are formulated. Evans and Andersen (2006, p. 195) argue that in stable democracies, economic outcomes are “typically not distinctive enough to produce a shared, accurate assessment of how the economy is doing.” As a result, when making judgments about the performance of the economy, individuals must rely on information that they have received about the economy and process that information in order to make a judgment. It is through this process of information reception and judgment that we expect non-economic factors to play a role in economic evaluations. As Duch, Palmer, and Anderson (2000) show, the outcome of these judgments is not an objective assessment of economic conditions, attenuated with random error to account for differences in information-processing abilities. Instead, economic perceptions are rooted in social and political factors like income, education, party, and group affiliations. Indeed, individual-level analyses suggest that individuals’ partisanship and their preference for the incumbent administration influence their economic evaluations (Anderson, Mendes, and Tverdova 2004; Conover, Feldman, and Knight 1987; Gerber and Huber 2010; Wlezien, Franklin, and Twiggs 1997; but see Lewis-Beck, Nadeau, and Elias 2008).

This article extends the individual-level evidence that partisanship influences economic perceptions in two ways. First, we argue that the influence of partisanship on economic evaluations will often be asymmetric. If Democrats’ and Republicans’ economic perceptions are equally influenced by their partisanship, the effects may, in large part, be offsetting. In other words, the existing evidence of individual-level partisan economic evaluations may not carry aggregate-level implications. However, if partisans respond in different ways and different amounts, the effect of partisanship on economic evaluations will not cancel in the aggregate. This asymmetric partisan response implies that standard measures of consumer sentiment reflect political considerations; i.e., economic perceptions are endogenous to political considerations. Given its central role in political decision-making, partisanship is a likely cause of both public opinion and economic perceptions. Thus, macro-level studies will tend
to overestimate the role that economic perceptions play in public opinion, since both opinion and perceptions are influenced by partisanship.\footnote{Although others have made this point with cross-sectional data (Wilcox and Wlezien 1996; Wlezien, Franklin, and Twiggs 1997) and panel data (Evans and Andersen 2006), we believe we are the first to develop and test the implications of endogenous economic perceptions for time-series data and aggregate (macro) analyses. Of course, evidence of partisan asymmetries in opinion data does not speak to whether such asymmetries translate to vote choice.}

We believe there are several reasons to expect that partisanship influences economic evaluations asymmetrically. If economic perceptions are endogenous to partisanship, as the individual-level studies indicate, partisans may pay more attention to the economic indicators that reinforce their preconceptions (Kunda 1990; Taber and Lodge 2006; Taber, Cann, and Kucsova 2009). Likewise, through selective exposure to the media (Iyengar and Hahn 2009), partisans may seek out information or be more exposed to news that reinforces their existing economic evaluation. In addition, Soroka (2006) shows that bad economic news carries more weight in the public’s perceptions of economic performance than does good economic news. Combining this insight with that of Iyengar and Hahn (2009) suggests that partisans will be exposed to and respond differently to economic news that they encounter. For example, in-party partisans—that is, partisans who identify with the party of the sitting president—may observe and respond more quickly to positive information, and out-party partisans may observe and respond more quickly to negative information. In sum, we have numerous reasons to believe that partisan perceptions will not cancel out in the aggregate.

Though identifying the particular mechanism that produces partisan-induced economic evaluations is not our primary interest—as just noted, there are likely many factors at work—it is worth considering that the above scenarios correspond with the view of partisanship described in The American Voter. That is, partisanship acts like a lens, leading individuals to perceive information in line with their predispositions. It is possible, however, that partisans evaluate the economy differently because Republicans and Democrats actually prefer different economic conditions. Analyzing presidential approval data from 1961 to 1979, Hibbs (1982) shows that Democrats are more sensitive to changes in unemployment and Republicans are more sensitive to changes in the inflation rate.\footnote{Consistent with the previous discussion, Hibbs’ (1982) analysis provides evidence of asymmetric partisan effects, with Democrats and Independents typically responding to economic conditions in a similar way and Republicans responding uniquely.} Hibbs (1982) argues that these differences do not appear because Democrats and Republicans perceive the economic world through partisan lenses—that is, seeing information that supports their priors but rather because they prefer different economic circumstances. This preference-based model (i.e., different tastes lead to different economic evaluations) does not alter our expectations.
Both views of partisanship predict that consumer sentiment and public opinion will be endogenous to partisanship. Nevertheless, in the subsequent sections, we speak of partisanship’s influence and the resulting implications in terms of selective perceptions (i.e., *The American Voter* model), not distinct preferences. In addition to allowing us to present our argument more concisely, we believe theory and data support this decision.

Theoretically, given the limited grasp of economic conditions displayed by the public (Anderson 2007; Conover and Feldman 1986; Holbrook and Garand 1996; Krause 1997), we do not expect Democrats and Republicans to evaluate the economy based entirely on objective economic observations and nuanced economic preferences. Bartels (2002, p. 134), for example, reports that despite the decline in inflation from 13.5 percent to 4.1 percent during the Reagan Administration, more than 50 percent of strong Democrats claimed that inflation had gotten somewhat or much worse during the preceding eight years. The corresponding percentage for Republicans was just 13 percent. A similar pattern held for the unemployment rate. It appears that Democrats and Republicans perceived different economic realities. An analysis of Democrats’ and Republicans’ concern for the economy offers further support for the partisan-lens perspective. Using the American National Election Studies (ANES), we look at the percentage of Democrats and Republicans who responded that unemployment, inflation, recession, or (more generally) “economics” was the most important problem facing the country. If Democrats and Republicans prefer different economic conditions, on average, they should not report equal levels of concern for a particular economic indicator. For example, if Republicans are typically more concerned with inflation than are Democrats, we would expect a higher proportion of Republicans to identify inflation as the most important problem facing the country. Figure 1 reports the corresponding percentages. Among respondents who mention a concern about a recession, “economics,” or inflation, the differences across party do not approach statistical significance.

3. This is not to say, however, that individuals do not notice and respond to broad changes in economic conditions (see, e.g., Enns and Kellstedt 2008).

4. Independent-Leaners are not included as partisans, but instead as Independents. By defining partisans as self-identified Democrats and Republicans (not Independent-Leaners), we are more likely to observe differences across partisan groups, which biases this analysis in favor of the partisan preferences hypothesis. We evaluate ANES data from 1986 to 2000 because these years overlap with the period of analysis in subsequent sections. The ANES did not ask the Most Important Problem question in 2002 and beyond. The specific question reads, “As you well know, there are many serious problems in this country and in other parts of the world. We’d like to start out by talking with you about some of them. What do you think are the most important problems facing this country? (if more than one:) Of all you’ve told me, what would you say is the single most important problem the country faces?” From the open-ended responses, answers were grouped into common themes of unemployment, inflation, recession, and general economic concern (VCF0875B = 10, 400, 410, and 491 and 496, respectively).
(\(p = .41, .29, \) and \(.70, \) respectively). However, Democrats tend to be more concerned with unemployment than do Republicans. Although the substantive magnitude is not large (the difference is just 5.4 percentage points), this difference is statistically significant. If partisan differences in consumer sentiment arise from different preferred economic conditions, unemployment is likely to be the source of that difference.

Do different preferred levels of unemployment lead Democrats and Republicans to update their consumer sentiment differently? If so, we would expect the relationship between unemployment and consumer sentiment among both Republicans and Democrats to be roughly equal regardless of which party controls the White House. However, if partisans are filtering economic information through a partisan lens, then the effect of unemployment should vary depending on who occupies the White House. The evidence supports the latter interpretation. During the administrations of President Bill

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5. The lack of difference between Democrats’ and Republicans’ expressed concern for inflation offers an interesting contrast to Hibbs (1987). However, given that the average monthly percentage change in inflation during Hibbs’s (1987, pp. 138–41) analysis was more than twice as high as the rate during our analysis (0.66 versus 0.26), perhaps the convergence among Democrats and Republicans is not surprising.
Clinton and President George W. Bush, the average monthly unemployment rate was 5.21 and 5.20, respectively. Despite the near-equivalence of the actual unemployment rate, Democrats and Republicans reacted very differently to unemployment across the two administrations. Democrats were roughly three times as concerned with unemployment under Bush as under Clinton. By contrast, the relationship between unemployment and consumer sentiment decreased for Republicans when Bush was in office. Of course, despite the near identical average levels of unemployment, the pattern of unemployment was not identical under Clinton and Bush. Throughout most of the Clinton presidency, the unemployment rate decreased. During the Bush presidency, by contrast, unemployment increased during the first two-and-a-half years before decreasing again for the remaining period of our analysis. It is possible that Democrats’ increased sensitivity to unemployment during the Bush presidency stems from this period of rising unemployment. An analysis of the first 30 months of the Bush presidency, when unemployment was rising, does not, however, support this interpretation. If anything, Republicans’ economic evaluations were more sensitive to the unemployment rate during this period than were Democrats’. This result suggests that Democrats’ greater responsiveness to unemployment during the Bush presidency was not simply a function of the increase in unemployment. (See the Online Appendix for a complete presentation and discussion of these results.) Although these findings are not meant to offer a definitive test of the partisan-lens and preference-based views of partisanship, we believe the combined evidence supports the decision to focus on the partisan-lens perspective when discussing endogenous economic perceptions.

Analysis Part I: Are Economic Perceptions Endogenous to Politics?

The first task is to evaluate whether partisanship influences economic evaluations, and whether or not any influence cancels in the aggregate. The University of Michigan’s Index of Consumer Sentiment is a standard measure of the public’s view of the economy. However, the University of Michigan surveys do not ask respondents about their partisan identification, so it is not possible to evaluate the influence of partisanship on these economic evaluations using those data. Instead, we turn to opinion data from Gallup, ABC, and CBS surveys. Since 1985, these surveys have regularly asked respondents about their evaluation of economic conditions. Furthermore, each of these surveys also asked respondents their partisan identification. We combine the questions

6. The Gallup question asks, “How would you rate economic conditions in this country today—as excellent, good, only fair, or poor?” CBS asks, “How would you rate the condition of the national economy these days? Is it very good, fairly good, fairly bad, or very bad?” The ABC surveys ask, “Do you think the nation’s economy is getting better, worse, or staying about the same?”
from the three surveys into a single index of economic sentiment. Because each of the survey houses skipped some months, using data from all three survey houses helps overcome the missing-data problem that would occur if we relied on a single survey. Thus, we can disaggregate by partisanship, find the common trend across surveys, and still obtain an accurate estimate of the partisan subgroup’s rating of the economy.

Before evaluating partisan economic evaluations, we compare our aggregate economic evaluation series with the University of Michigan’s Index of Consumer Sentiment. Figure 2 shows the two series, plotted on separate axes. Although our measure of economic sentiment starts higher than the Index of Consumer Sentiment, the two series quickly converge and their monthly

For the Gallup series, the percent rating the economy as excellent or good was tabulated, and for the CBS series, the percent rating the economy as very good or fairly good was calculated. For ABC, the percent saying the economy was getting better was tabulated. In the questions used to identify partisanship, respondents were asked whether “you usually consider yourself a Republican, Democrat, or Independent.”

7. We combine the series using Stimson’s (1999) Dyad Ratios Algorithm, which scales the series to a common metric. This method is essentially a dynamic factor analysis that identifies a common trend among the observed questions while accounting for missing data. The methodology has been used extensively to merge polling data (see, e.g., Baumgartner, De Boef, and Boydstun 2008; Enns and Kellstedt 2008; Erikson, MacKuen, and Stimson 2002; Kellstedt 2003). The algorithm is explained in depth in Stimson (1999) and at http://www.unc.edu/~jstimson/Software.html.
movements shift roughly in tandem throughout the period of analysis. The only other persistent difference occurs around 2004, when the Michigan consumer sentiment series rises more than the results of the combined series. The similarities provide strong evidence that our measure of economic sentiment indeed captures the public’s economic evaluations.8

Our next step is to look at economic evaluations for Democrats, Independents, and Republicans. If partisanship matters for economic evaluations, we should observe differences between the series, with the party that identifies with the president offering the highest economic evaluations. Additionally, we want to know if any differences would cancel out if opinions were fully aggregated. In other words, are Democrats and Republicans just mirror images of one another, leaving Independents to account for much of the over-time variation? If the series for Independents appears closer to one partisan group than the other, we will have evidence that the influence of partisanship would not cancel out in the aggregate. Presumably, the series further from Independents would pull the aggregate measure of opinion in that direction.9

Figure 3 plots the economic sentiment ratings of the three partisan series. During the strong economy of the 1990s, Democrats’, Independents’, and Republicans’ economic evaluations often overlap, showing minimal evidence of partisan influence during much of the Clinton years. These patterns may be a result of the unambiguously strong economy during this period. The Reagan and both Bush Administrations tell a different story. As expected, Republicans are much more optimistic about the economy than are Democrats when a Republican is in the White House. Additionally, Democrats’ economic evaluations appear much closer to those of Independents than to those of Republicans during Republican administrations. During the Reagan and the first Bush

8. From January 1980 to November 2007, the monthly series correlate at an impressive $r = 0.80$. There are, not surprisingly, some disparities between our index and the Michigan ICS—note especially the period surrounding Bill Clinton’s first election, and also the period between 2003 and 2006. To investigate this deviation, we examined the components of the ICS and found that, for questions in the index focused on the state of the economy, the public’s evaluation was consistent with our measure, relatively flat between 2003 and 2006. However, the ICS also includes questions about people’s attitudes about current buying conditions for major purchases, including homes, and on this question, responses were more optimistic than those for economic conditions. Thus, it appears that the low interest rates, easy refinancing, and belief in rising house prices led the ICS to measure economic evaluations as more optimistic than ours. The other differences likely reflect sampling error. Some differences due to sampling error are expected, given that the series includes 268 observations. Importantly, the discrepancies apparent in the figure are not likely to cause problems for analysis, in particular because the method we employ to analyze the data—Error Correction Models—uses first the difference of the dependent variable, and the differences apparent in the figure are mostly in the levels of the series, not in the direction of their month-to-month changes.

9. The alignment of Independents with major parties is likely to change within and across administrations due to non-economic factors, like foreign policy crises, and this can either mute or enhance the effects of partisanship on macro-level opinion. A full exploration of these issues is beyond the scope of this analysis.
Administration, the average difference between Democrats and Independents is 5.2 percentage points. The average difference between Republicans and Independents during this period is more than double—13.6 percentage points. During George W. Bush’s presidency, the average differences were 12.8 and 21.5, respectively. Asymmetric partisan economic evaluations appear to be the norm, not the exception.10

Next, we evaluate how economic news and objective economic indicators influence partisans’ evaluations of the economy. This analysis underscores the extent to which the partisan differences observed above reflect distinct partisan responses to available economic information. We use the series from figure 3 as the dependent variables for this analysis. We estimate single equation error correction models (ECMs), which are particularly useful when the data trend.11 ECMs also provide the advantage of modeling both immediate effects and long-term effects, which occur if the effect of a predictor variable is distributed over subsequent time periods. We follow previous research (Erikson, MacKuen and Stimson 2002) and estimate the regression equations for different partisan groups jointly, using Zellner’s (1962) system of seemingly unrelated regression (SUR) equations. Given that the series in figure 3 follow

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10. We also analyzed these partisan asymmetries weighting for the proportion of partisans in the population. The results are virtually identical and are reported in the Online Appendix.

11. Dickey-Fuller tests indicate that we cannot reject the null hypothesis of a unit root in the partisan economic perceptions series.
similar over-time movement, and in particular because the different groups are all drawn from the same national samples, we expect residuals to be correlated across equations. The SUR model estimates this correlation and incorporates it into the regression, producing more efficient estimates.\textsuperscript{12} The models control for three objective economic indicators: the unemployment rate, the inflation rate, and the index of coincident indicators.\textsuperscript{13} These economic indicators comprise much of the economic information available to the public at any given time. We also add a measure of available economic news, based on a content analysis of \textit{New York Times} stories about the economy, to the model.\textsuperscript{14}

Table 1 presents the results of the ECM analysis. The top half of the table reports the \textit{immediate} (or short-term) expected change in the dependent variable for a unit change in the predictor variable. The bottom half of the table reports the long-run multiplier, which provides a summary estimate of the total influence on the dependent variable for a unit shift in the predictor variable, distributed over future time periods.\textsuperscript{15} The long-run multiplier accounts for the fact that the influence of the independent variables may not be limited to one period.

In table 1, we see few significant immediate effects for economic conditions or news on the public’s rating of the economy. When economic indicators or economic news shifts, very few partisans of any stripe respond by updating their economic evaluations that same month. Republicans’ responsiveness to changes in the unemployment rate and the index of coincident indicators and Democrats’ responsiveness to bad economic news stand as the exceptions ($p < .10$). This lack of any meaningful pattern in the short-term effects indicates that all partisan groups take time to process and adjust to information about the economy.

Looking to long-run effects, reported in the bottom half of table 1, we see more responsiveness in partisans’ evaluations of the economy to changes in the information environment. Unemployment stands out as the variable

\textsuperscript{12} Indeed, in all of the following analyses, the correlation among residuals is significant at $p < .05$.

\textsuperscript{13} The index of coincident indicators is reported monthly by the Conference Board and comprises economic measures for income and domestic production.

\textsuperscript{14} The database of media stories used for content analysis in this article involves the use and updating of the media data used in De Boef and Kellstedt (2004). In that paper, De Boef and Kellstedt retrieved and analyze the full text of all articles in Section A of the \textit{New York Times} that have “U.S. Economy” as a subject heading. Because the series from that paper ends in December of 2001, we update the database from Nexis using identical search procedures, which yield an additional 872 stories between January 2002 and May 2007. The dictionary of ideas and words to transform the raw text into references to “good news” and “bad news” about the economy is quite straightforward, and is identical to that used in De Boef and Kellstedt (2004).

\textsuperscript{15} The long-run multiplier is calculated using the coefficients for the lagged predictor variables and the lagged dependent variable. These values are reported in table A-4 in the Online Appendix. For a complete description of the long-run multiplier and how it and its standard error are calculated, see De Boef and Keele (2008).
with the most consistent effect, since it is the only one to which all partisan groups respond. Consistent with the analysis of ANES data presented above in figure 1, Democrats respond much more to changes in unemployment than do Republicans. For Democrats, a percentage increase in unemployment predicts a 10.3-percent decline in their rating of the economy, while the same change predicts a 6.4-percent decline for Republicans. In addition, during this time period, Democrats had a significant ($p < .10$) response to changes in inflation, whereas Republicans did not. This is an important result that contrasts with earlier findings by Hibbs (1982). The Republican concern for inflation that

<table>
<thead>
<tr>
<th>Table 1. The Economic Determinants of Changes in Economic Evaluations by Partisanship (standard errors in parentheses)</th>
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<tbody>
<tr>
<td>(1) Democrats</td>
</tr>
<tr>
<td>Economic Evaluation$_{t-1}$</td>
</tr>
<tr>
<td>(0.021)</td>
</tr>
<tr>
<td>Δ Unemployment</td>
</tr>
<tr>
<td>(1.896)</td>
</tr>
<tr>
<td>Δ Inflation</td>
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<tr>
<td>(0.084)</td>
</tr>
<tr>
<td>Δ Coincident Indicators</td>
</tr>
<tr>
<td>(1.056)</td>
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<tr>
<td>Δ Good News</td>
</tr>
<tr>
<td>(0.016)</td>
</tr>
<tr>
<td>Δ Bad News</td>
</tr>
<tr>
<td>(0.023)</td>
</tr>
<tr>
<td><strong>Long-Run Multiplier</strong></td>
</tr>
<tr>
<td>Unemployment</td>
</tr>
<tr>
<td>(3.119)</td>
</tr>
<tr>
<td>Inflation</td>
</tr>
<tr>
<td>(0.572)</td>
</tr>
<tr>
<td>Coincident Indicators</td>
</tr>
<tr>
<td>(0.453)</td>
</tr>
<tr>
<td>Good News</td>
</tr>
<tr>
<td>(0.119)</td>
</tr>
<tr>
<td>Bad News</td>
</tr>
<tr>
<td>(0.171)</td>
</tr>
<tr>
<td>Constant</td>
</tr>
<tr>
<td>(9.834)</td>
</tr>
<tr>
<td>Observations</td>
</tr>
<tr>
<td>$R^2$</td>
</tr>
</tbody>
</table>

*p < 0.05, **p < 0.01 (two-tailed tests).

Note.— Long-run multiplier estimated with a Bewley Transformation, following De Boef and Keele (2008). Administration dummy variables are not shown. Full results are reported in table A-4 in the Online Appendix.
was evident prior to the 1980s appears to have diminished. Of course, if economic conditions mirrored the late 1970s (rapid inflation during a Democratic presidency), there is no reason to believe that Republicans would not again be the most responsive to inflation. Unlike Democrats, Republicans responded to changes in the coincident indicators \( p < .10 \). The negative coefficients suggest that both Democrats and Republicans responded to bad economic news, although only the coefficient for Democrats is statistically significant and the magnitude of the impact on Democrats’ evaluation of the economy appears stronger than on Republicans’ assessment (0.34 vs. 0.27). Overall, the analysis of the effects of economic indicators and news on the public’s perception of the economy shows that partisanship matters. Not surprisingly, a Wald test indicates that the joint influence of the economic variables on Democrats’ and Republicans’ economic evaluations is statistically different. On the whole, there is good reason to believe the early studies of voting behavior were right in pointing to a “perceptual screen,” leading Democrats and Republicans to treat the same economic news differently.16

We draw two important conclusions from this section of the analysis. First, the analysis of economic evaluations by partisanship offers clear evidence that partisan effects do not cancel in the aggregate. Second, consistent with the early studies of voting behavior and expectations of a “perceptual screen,” these differences result, at least in part, because Democrats and Republicans react differently to economic information. We now turn to an analysis of whether these partisan effects matter for time-series analysis.

**Analysis Part II: Problems of Endogeneity**

The results above provide sound evidence that partisanship influences economic perceptions, and that these differences do not cancel each other out in the aggregate. Our primary interest, however, is in the consequences of these partisan effects on our understanding of the relationship between the economy and macro-level public opinion. Scholars are often interested in testing the effects of the economy on political opinions, such as presidential approval, trust in government, or policy mood. Any expected relationship between economic conditions and opinions assumes that the public notices and reacts to changes in the objective economy—e.g., consumer sentiment must change in response to changes in unemployment. It is thus reasonable that many studies use consumer sentiment (or some similar measure) to estimate the relationship between economic factors and opinion about the president or other evaluations. However, our expectation of asymmetrical partisan effects, and

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16. Because of the importance of unemployment to economic perceptions (as documented above), we further explored whether partisans respond differently to changes in unemployment depending on who occupies the White House. Again, we found evidence of differential updating. These results are reported in the Online Appendix.
the results of the above analysis, suggest that partisanship influences both consumer sentiment and the political variables of interest. In other words, because of this endogeneity, studies that use consumer sentiment (or other subjective measures of the economy) as an explanatory variable are likely to exaggerate the impact of the economy on public opinion.

The following analysis tests this proposition. Our dependent variable is approval of the president’s handling of the economy.\(^{17}\) We select this question because the specific reference to “the economy” in the question wording makes this a least likely case for observing endogenous effects. That is, if any political (as opposed to economic) question reflects a clear link between the objective economy and political evaluations, this should be it. We use an Error Correction Model (ECM) to estimate the determinants of changes in the public’s approval of the president’s handling of the economy. Our primary interest is in the relationship between economic evaluations and assessments of how the president is handling the economy. We again control for objective economic indicators as well as our measure of positive and negative economic news.\(^{18}\) As reported in table A-5 in the Online Appendix, the models also include event dummy variables for the end of the first Gulf War, September 11, 2001, and the start of the Iraq War.

Table 2 presents three models of economic job approval.\(^{19}\) The differences across models (columns) is the measure of economic evaluations we use as an explanatory variable. In column 1, we rely on the University of Michigan’s Index of Consumer Sentiment. Here, we simply intend to establish a baseline model of approval of the president’s handling of the economy. The results show a significant immediate relationship between changes (Δ) in consumer sentiment and approval of the president’s handling of the economy. Given the standard assumption that consumer sentiment reflects assessments of the economy and is not influenced by partisanship, this coefficient would typically be interpreted as an indication that the public noticed changes in the economy and immediately translated these changes into their evaluation of the president’s economic performance. This interpretation can also account for the lack of significant findings for changes in the objective economic indicators in the model (shown in the Online Appendix). As MacKuen, Erikson, and Stimson (1992, p. 602) argue in their seminal study of consumer sentiment and presidential approval, “introducing the ICS (Index of Consumer Sentiment) wipes out the “direct” contributions of the economic variables.” We also see significant short-term effects for good and bad news in the media. Thus, even

17. The exact question wording is “Do you approve or disapprove of how President [Reagan, Bush, Clinton, Bush] is handling the economy?”
18. Since consumer sentiment and the coincident indicators are both summary assessments of the state of the economy, we omit the coincident indicators from this part of the analysis. The results remain virtually unchanged if we include the coincident indicators.
19. The Lagrange Multiplier test indicates no autocorrelation in the models.
Table 2. The Relationship Between Approval of the President’s Handling of the Economy and Three Measures of Economic Evaluations (standard errors in parentheses)

<table>
<thead>
<tr>
<th></th>
<th>(1) Index of Consumer Sentiment</th>
<th>(2) Aggregate Economic Evaluations</th>
<th>(3) Nonpartisan Economic Evaluations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handling the Economy_{t-1}</td>
<td>$-0.127^{**}$ (0.027)</td>
<td>$-0.148^{**}$ (0.030)</td>
<td>$-0.134^{**}$ (0.030)</td>
</tr>
<tr>
<td>$\Delta$ Index of Consumer Sentiment</td>
<td>0.167** (0.052)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$\Delta$ Aggregate Economic Evaluation</td>
<td>0.121* (0.047)</td>
<td>0.016 (0.050)</td>
<td></td>
</tr>
<tr>
<td>$\Delta$ Nonpartisan Econ. Evaluation</td>
<td></td>
<td>0.016 (0.050)</td>
<td></td>
</tr>
<tr>
<td>$\Delta$ Good News</td>
<td>0.052** (0.011)</td>
<td>0.054** (0.011)</td>
<td>0.055** (0.011)</td>
</tr>
<tr>
<td>$\Delta$ Bad News</td>
<td>$-0.039^*$ (0.016)</td>
<td>$-0.044^{**}$ (0.016)</td>
<td>$-0.048^{**}$ (0.016)</td>
</tr>
</tbody>
</table>

*Long-Run Multiplier*

<table>
<thead>
<tr>
<th></th>
<th>Consumer Sentiment</th>
<th>Aggregate Economic Evaluation</th>
<th>Nonpartisan Econ. Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.634** (0.255)</td>
<td>0.453** (0.138)</td>
<td>0.348* (0.161)</td>
</tr>
<tr>
<td>Unemployment</td>
<td>$-6.729^{**}$ (2.385)</td>
<td>$-5.229^{**}$ (2.247)</td>
<td>$-6.216^{**}$ (2.676)</td>
</tr>
<tr>
<td>Inflation</td>
<td>$-0.299$ (0.556)</td>
<td>$-0.550$ (0.466)</td>
<td>$-0.748$ (0.529)</td>
</tr>
<tr>
<td>Good News</td>
<td>0.358** (0.135)</td>
<td>0.322** (0.113)</td>
<td>0.375** (0.133)</td>
</tr>
<tr>
<td>Bad News</td>
<td>$-0.225$ (0.165)</td>
<td>$-0.246$ (0.140)</td>
<td>$-0.327^*$ (0.163)</td>
</tr>
<tr>
<td>Constant</td>
<td>3.647 (4.440)</td>
<td>7.787* (3.114)</td>
<td>8.713** (3.241)</td>
</tr>
</tbody>
</table>

Observations 268 268 268

$R^2$ 0.256 0.250 0.231

*p < 0.05, **p < 0.01 (two-tailed tests).

Note.— All models include the same dependent variable; column headings refer to the different measures of economic evaluations in each model. Long-run multiplier estimated with a Bewley Transformation, following De Boef and Keele (2008). Administration dummy variables, controls for the first Gulf War, September 11, 2001, the start of the Iraq War, and nonsignificant control variables (i.e., $\Delta$ Unemployment and $\Delta$ Inflation) are not shown. Full results are reported in table A-5 in the Online Appendix.
controlling for consumer sentiment, news reports about the economy influence evaluations of the president.

The long-run multiplier in table 2 reports the total effect of the predictors (i.e., the immediate effects discussed above, as well as the long-run equilibrium between predictors and the dependent variable). Here, we find significant long-run effects for unemployment and good economic news. The significant long-term relationships indicate, not surprisingly, that public opinion does not immediately incorporate all new economic information. News and economic conditions in month \( t \) continue to influence assessments of the president’s handling of the economy many months into the future.

Column 2 replaces the independent variable of the Index of Consumer Sentiment with our aggregate measure of economic evaluations. As shown in figure 2, these two measures track largely in parallel over time. Thus, it is no surprise that we again see a strong relationship between this measure of economic evaluations and approval of the president’s handling of the economy. Consistent with expectations, the standard macro approach shows a strong contemporaneous relationship between economic evaluations and approval of the president’s handling of the economy. In addition, the long-run effects of unemployment and good economic news continue to influence the public’s evaluation of how the president is managing the economy. In this model, bad economic news has a significant long-run effect as well.

We now ask, to what extent does the endogenous influence of partisanship affect these results? To answer this question, we need to estimate the counterfactual; that is, if consumer sentiment were not influenced by partisanship, how would these nonpartisan economic evaluations influence approval of the president’s handling of the economy? We thus need an estimate of nonpartisan economic evaluations. Our approach is straightforward.

The series that we constructed for Democrats’, Independents’, and Republicans’ perceptions of economic conditions (shown above in figure 3) share some common variation over time, as well as some unique variation. It is reasonable to propose that the common variation represents the view of the economy shared by the partisan groups, and thus can be thought of as the nonpartisan component of economic perceptions. Each series will also have some unique variation associated with the lenses through which Democrats, Independents, and Republicans view the economy. This approach to distinguishing common and unique variance in time-series analysis is explained in Kellstedt, McAvoy, and Stimson (1995). They propose a common-factor model that produces an estimate of the so-called “state vector” (or factor), which reflects the common variance across series. We use this estimate of the common variance across series as our estimate of nonpartisan economic evaluations. Not surprisingly, and comfortingly, this factor is highly correlated with the economic evaluations of Independents ($\gamma = 0.96$).

This measure of nonpartisan economic evaluations offers a useful comparison to our aggregate measure of economic sentiment, which is clearly influenced
Partisanship and Economic Perceptions 303

by partisan evaluations. What is not known is the extent to which the use of the aggregate economic perceptions variable distorts our understanding of the link between subjective evaluations of the economy and public opinion. In other words, if partisanship is influencing both perceptions of the economy and evaluations of the president, how do we know that a correlation between perceptions and opinion is not simply the result of partisanship influencing both?

Column 3 in table 2 explores the relationship between economic evaluations and approval of the president’s handling of the economy using the nonpartisan measure of economic evaluations. In contrast to the first two columns, we see no significant immediate relationship between change in (nonpartisan) economic evaluations and approval of the president’s handling of the economy (although change in good news and bad news in the media does still have immediate effects). The coefficient for change in nonpartisan economic evaluations has decreased to a little less than .02 with a standard error of .05, indicating no statistical significance. The common influence of partisanship on economic evaluations and approval of the president’s handling of the economy appears to be driving the results in columns 1 and 2. Put differently, standard approaches to understanding the relationship between the economy and public opinion (in this case, the president’s handling of the economy) not only can overestimate the immediate effect of the economy, but also can produce evidence of such an effect when none exists. The objective economic indicators continue to exert no immediate effect. This also carries important implications. In the previous models, it seemed reasonable to believe that the lack of relationship occurred because consumer sentiment accounted for the immediate effect of the objective economy; that is, the public noticed changes in economic conditions, incorporated these changes into its consumer sentiment, and updated its assessment of the president immediately. Now we see, however, that this interpretation is not supported by the data, and is likely the result of partisanship influencing both economic evaluations and economic job approval.

Differences between the “partisan” and “nonpartisan” economic evaluations also emerge when we look at the long-run multiplier. The long-run effect for the aggregate economic evaluations (column 2, table 2) is notably larger than the nonpartisan factor (0.45 vs. 0.35). This is consistent with the idea that the endogeneity of partisanship is inflating the effects of economic perceptions.

20. Not only is this coefficient close to zero, but it is also approximately one-tenth the magnitude of the estimated effect of subjective economic evaluations in columns 1 and 2.
21. To ensure that a simultaneous relationship between approval of the president’s handling of the economy and consumer sentiment is not leading us to overestimate the effect of partisanship, we also estimated the models in table 2 with a Vector Autoregression (VAR) model. The results of this analysis reinforce the above conclusions and are reported in the Online Appendix.
22. The comparison of coefficients across regression models is feasible in this case since the two measures of economic evaluations are on the same scale (with nearly identical variances) and are used to explain the same dependent variable.
It is important to note, however, that the long-run multiplier coefficient in the nonpartisan factor model is still significant. Thus, nonpartisan economic evaluations and objective economic indicators do matter for approval of the president’s handling of the economy; they just take longer, and shift more incrementally, than is indicated by studies that fail to account for the partisan nature of economic assessments.23

Implications

Despite its central role in individual-level studies, partisanship has largely been dismissed as a causal factor in aggregate studies of politics in favor of economic perceptions. However, our results show that for macro-level analysis it is not safe to assume that economic perceptions stand outside the political and social arena. Economic perceptions are indeed the byproduct of judgments made by individuals with different partisan orientations, and these partisan perceptions do not cancel in the aggregate.

As this study shows, the effect of partisanship in economic perceptions is important. It is almost universally accepted that the state of the economy is a primary determinant of presidential approval (Brody 1991; Erikson, MacKuen, and Stimson 2002; Hibbs 1987; McAvoy 2006). However, the results from this analysis offer an important revision to our understanding of the way in which the public holds the president accountable for economic conditions. We show that, after controlling for the partisan component of consumer sentiment, objective economic conditions produce no significant short-term effects on approval of the president’s handling of the economy. The influence of the economy on presidential evaluations is incremental.

Although the focus of this study is on macropolitics viewed over time, the analyses have some implications for micro-level studies as well. By looking over time, we find that the effects of partisanship are stronger in some periods (like under the George W. Bush Administration) and almost non-existent in others (as was the case during the economic expansion of the Clinton Administration). Thus, even though partisan perceptions are the norm, conditions do exist in which the public overcomes its partisan biases, and economic perceptions and reality are in sync (Enns and McAvoy forthcoming; McAvoy and Enns 2010).

The issue of the most substantively meaningful level of aggregation for over-time analysis has not been often discussed in print before, but it is an important undercurrent of much empirical work (Enns and Wlezien 2011). In most work

23. Interestingly, the dynamics in column 3 are much more consistent with the standard view of public opinion than models 1 or 2. As the analysis here shows, economic reality matters, but it takes time for the public to notice and incorporate economic considerations into their evaluations of the president.
over the past two or more decades, the level of aggregation used has been the highest one possible—that of the public as a whole. In many (perhaps most) cases, that choice might be the most appropriate one. In other cases, however, aggregating the responses of members of the mass public might mask substantially important subgroup differences that change our understanding of the causal relationships between important political variables.

We believe that we have found one instance where, in previous research, overaggregating may be problematic. We have more than a half-century of theory and evidence—from *The American Voter* onward—to suspect that Republican and Democratic identifiers will process information about the economy differently, depending on which party occupies the White House and how the objective economy is performing at any given time. And yet, in previous analyses, attitudes about the economy held by Republicans and Democrats have been lumped together (along with those of Independents), resulting in a demonstrable statistical overestimate of the effects of consumer confidence on approval of the president’s economic job performance. Because of this overaggregation, some of the effects that partisanship has on approval have been misattributed and assigned to consumer confidence instead. We suspect that parallel investigations of other macropolitical phenomena that have been viewed as determined by consumer confidence might yield similar results to those we present in these analyses.

There are normative implications to these findings—some positive, others negative. Because macropolitical analyses have overestimated the role of consumer sentiment and (by construction) ignored the role of partisanship, previous analyses have overstated the objective and rational capabilities of the American mass public in making political evaluations. That is, to the extent that the public has been seen as rendering political judgments that depend exclusively on objective assessments of the future of the economy, the public rewards and punishes politicians and parties in ways that depend directly on their management of the economy. But, when (properly) accounting for the role of partisanship in economic evaluations, the public appears much less objectively calculating than previous analyses have found; instead, much of the public sees the world through its subjective partisan lenses—making the public seem less like the “banker” characterization portrayed in the famous title of MacKuen, Erikson, and Stimson’s (1992) seminal essay. To be sure, our results do not show that the public is partisan to the point of being impervious to objective evidence. But we do find that Republicans and Democrats, because of their partisan lenses, are not fully objective observers and evaluators of the economy—too ready to see the good signs when their party controls the White House, and too ready to ignore the good signs when the other party is in charge.

On the other hand, a different normative interpretation of these findings would suggest that having segments of the public that filter the world through partisan lenses actually fosters stability, by providing a core base of supporters
regardless of the vicissitudes of real-world conditions. This core, the thinking goes, provides sufficient support to allow governments to actually get things done, rather than ceaselessly worrying about shoring up fragile popularity.

Appendix: Survey Information

The survey results reported here were obtained from searches of the iPoll Databank and other resources provided by the Roper Center for Public Opinion Research, University of Connecticut. Response rates for the individual surveys were not available.

ABC Poll: Do you think the nation’s economy is getting better, worse, or staying about the same? (National Adult Sample, Telephone Survey)

CBS Poll: How would you rate the condition of the national economy these days? Is it very good, fairly good, fairly bad, or very bad? (National Adult Sample, Telephone Survey)
Gallup: How would you rate economic conditions in this country today—as excellent, good, only fair, or poor? (National Adult Sample, Telephone Survey)


Supplementary Data

Supplementary data are freely available online at http://poq.oxfordjournals.org/.

References


