Which Party is better for the Economy?

By Grant Newton

Americans will choose a new President and elect members of Congress on Tuesday, November 5. There's little dispute that these choices have an impact on the US economy and citizens' everyday lives. It begs the question - is one political party better for the economy than the other?

Prevailing thinking indicates that a Republican President and Congress have the edge on building a strong economy. A focus on lower taxes, reducing federal deficit and a lax approach to regulation would all lead to higher GDP, higher employment and better economic times.

Turns out - that prevailing thinking is wrong.

In 2014, two Princeton professors, Alan Blinder and Mark Watson, authored a study comparing the health and growth of the modern US economy under each President since Harry Truman[1], more specifically since 1947 when official Real GDP measures were produced by the Federal Reserve Bank. Marking each administration from the start of the 2nd quarter after election, to the end of the 1st quarter after leaving office, Blinder and Watson found that the US economy did better under Democratic Presidents than Republican ones. The advantage holds across a number of economic indicators. We've excerpted a table below from EPI Action showing how broad the economic advantage is[2]:

Economic Indicator	Democratic Administration	Republican Administration	Advantage
Real GDP - % Growth	3.79	2.60	Democrat
Real NDP - % Growth	2.60	1.28	Democrat
Total Job Growth - %	2.47	1.07	Democrat

[1] Presidents and the U.S. Economy: An Econometric Exploration. Blinder, A., Watson, M. (2013). https://www.princeton.edu/~mwatson/papers/Presidents_Blinder_Watson_Nov2013.pdf
[2] Economic Performance is Stronger when Democrats hold the White House. Bivens, J. (2024). https://www.epi.org/press/new-report-finds-that-the-economy-performs-better-under-democratic-presidential-administrations

Private Job Growth - %	2.55	0.97	Democrat
Unemployment Rate	5.41	6.01	Democrat
Real Wages - % Growth	1.08	0.88	Democrat
Bus Invest - % Growth	6.58	2.98	Democrat
Personal Income - % Growth	2.66	1.41	Democrat
Inflation (All) - %	2.91	3.29	Democrat
Inflation (excl. Food/Energy) - %	2.87	3.59	Democrat
Federal Funds Rate	4.17	4.94	Democrat

Beyond these measures, there's other anecdotal evidence that a Democratic President is better for the economy. Since 1975, five of the last six Recessions have begun (or occurred completely) while a Republican was in office. What about equity markets[3]? The gap is even more significant. Real stock market performance is double under Democrat Administrations than under a Republican one since 1947.

What if you go back further in time before the Truman administration? Adding in Roosevelt and Hoover skew the results to a greater degree, given the impact of the Great Depression and World War II. GDP growth per annum in the Roosevelt era averaged 7.4%. From 1875 to 1946, GDP was stronger under Democrats by a margin of 1.2% (owing largely to FDR's Administration), and it's worth noting the economy was in Recession for 94 Republican administration quarters and 39 quarters under a Democrat.

Potential Rebuttal

Since Blinder & Watson's study was published in 2014, there's been criticism of the results. None really on the outcome or findings that Blinder & Watson had, more on the methodology they used to produce that outcome. Specifically, a follow-up from Tim Kane and the Hoover Institution questions the validity of the 1Q lag from the calendar start/finish of the administration[4]. Kane asserts that the 1Q lag is too brief, and argues that a lag of 2-4Qs would be more reflective of the actual impact an administration has on the economy. He further notes that an increased lag blunts

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[3] Republicans or Democrats: Who's better for the Economy. Klement, J. (2020) https://blogs.cfainstitute.org/investor/2020/09/08/republicans-or-democrats-who-is-better-for-the-economy/

[4] Presidents and the US Economy, 1947-2016. Kane, T (2017) https://www.hoover.org/sites/default/files/research/docs/17101-kane-presidents_and_the_us_economy_from_1949_to_2016_updated.pdf

the Democrat advantage up to 6Qs where the difference is negligible. Readers can decide for themselves which methodology is a better measurement of an administration, but the fact remains that measuring economic performance between the two parties favors Democrats with any start/finish adjustment short of 18 months.

Why?

The data shows that the US Economy is stronger when a Democrat is President. The next logical question is - why is that so?

Even though the math is clear, the causal factors are anything but. There has been speculation, and we list some of those potential reasons in the following section.

Timing of External Factors

In his examination of the the Blinder & Watson study, Jeffrey Frankel[5] argues that the economic advantage for Democratic vs. Republican Presidents goes far beyond chance. One can't deny, however, that factors outside the control of any US President have a measurable impact on the economy. Wars, energy shocks and global financial crises have occurred with timing more favorable to Democratic Presidents in the past 75 years.

Fed Chair Appointment

Blinder & Watson note that, even though a President doesn't directly control monetary policy, the Federal Reserve Bank has a direct impact on economic growth. Even though the Fed Chair is not affiliated with either party per se, labeling the President who appointed the Fed Chair provides insight. Using this methodology, the economy grew 30% faster under a Democrat-appointed Chair than a Republican one.

Presidential Bias

The Dunning-Kruger Effect is a cognitive bias where individuals with low expertise overestimate their abilities, leading them to make misguided decisions. Observers note that Democratic Presidents are more likely to heed the advice of experts in the field rather than rely on conventional thinking or, worse yet, their own limited counsel. This approach has manifested through an application of Keynesian principles and government intervention during economic downturns by the

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[5] Does the Economy really do better under Democratic Presidents? Frankel, J (2016) https://www.belfercenter.org/publication/does-economy-really-do-better-under-democratic-presidents

Democrats, while Republicans tend to favor tax cuts, trickle-down economics, and deregulation.

While these insights offer valuable clues, they don't present a complete answer to why Democratic administrations tend to outperform Republican ones on economic metrics. However, the interplay of complex factors—ranging from global events and fiscal policy decisions to Federal Reserve actions—complicates any straightforward conclusions.

The longstanding debate over which political party is better for the economy remains nuanced and complex. The data, as demonstrated by Blinder and Watson's study, suggests that Democratic administrations have historically outperformed Republican ones across various economic indicators, from GDP growth to job creation. While this trend holds true even when accounting for external factors and methodological critiques, the reasons for it are still debated. Variables like global crises, fiscal policies, and the impact of the Federal Reserve add layers to understanding these economic outcomes. Ultimately, voters must decide which approach aligns best with their economic priorities.