Polarized Expectations, Polarized Consumption
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Inflation Expectations:
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My Take

▶ Excellent paper!

▶ My recommendations:
  ▶ More data work: what precisely do partisans say they disagree about?
  ▶ Clarify what qualifies as "partisan reasoning"

Background

Expectations

Wlezien et al. (1997), Duch et al. (2000), Bartels (2002), Gerber and Huber (2010)

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Broader Economic Decisionmaking

Kempf and Tsoutsoura (2021), Engleberg et al. (2022), Meeuwis et al. (2022), Cassidy and Vorsatz (2021)

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3. Heterogeneity in responses to partisan shocks
   Compare households expectations to that of professional forecasters

This Paper

Use multiple correspondence analysis (MCA) to reduce the dimensionality of responses to the Michigan Survey of Consumers.

▶ Label the first principal component "sentiment"

▶ Show that sentiment is highly persistent, except when the White House changes hands by estimating the following regression:

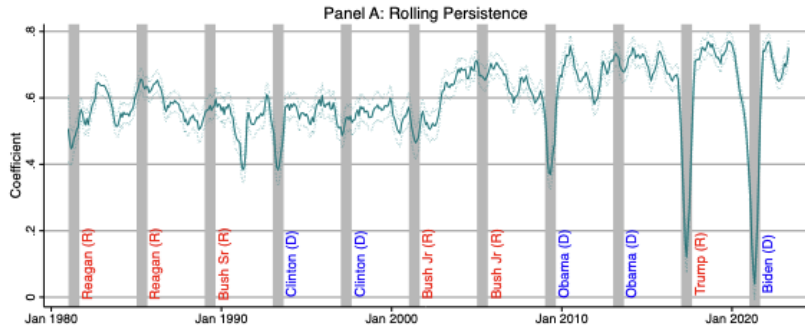$$f_{i,t} = \alpha_t + \beta_t f_{i,t-6\text{m}} + \epsilon_{i,t}$$

▶ Show that, across respondents, political affiliation explains a substantial amount of the variation in sentiment. The explanatory power has increased over time.

Evidence from Expectations

Panel A: Rolling Persistence
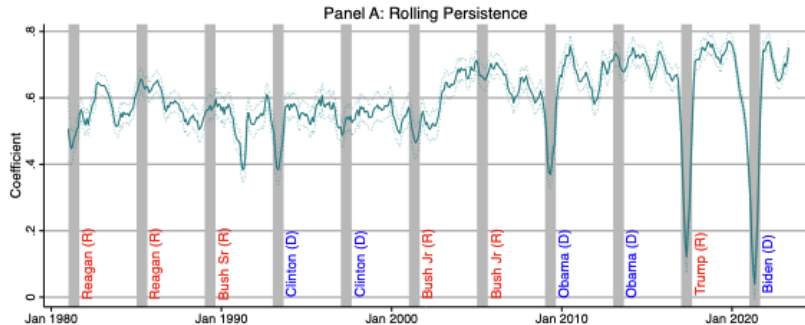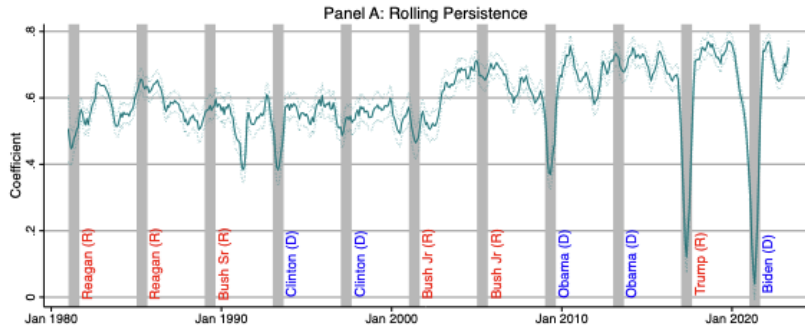
Key takeaways from this figure:

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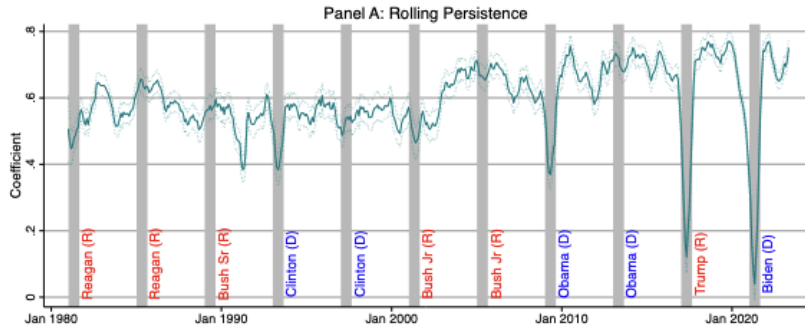
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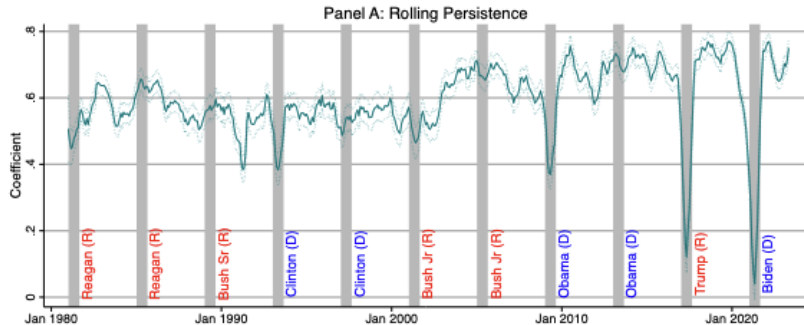
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Evidence from Expectations

Panel A: Rolling Persistence

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3. Magnitude versus all other factors
4. Importance of partisanship over a long time-horizon

Partisan Narratives

Big outstanding question: why do partisans disagree?

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Two credible hypotheses:

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Current findings:

- ▶ Frequency with which respondents cite government policy has increased
- ▶ Code references to government policy as positive or negative
- ▶ Modest correlation between "partisan reasoning" and sentiment

$$\Delta f_{i,t} = \alpha_t + \beta_t \Delta g_{i,t} + \epsilon_{i,t}$$

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    - ▶ Are there sharp differences in topic? I.e. taxes versus health care.

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An alternative exercise:

▶ What subject matter do partisans emphasize when they favorably or unfavorably mention government policy.

  ▶ Are there sharp differences in topic? I.e. taxes versus health care.
  ▶ Are their responses consistent? Example: do Republican respondents favorably mention taxes after tax cuts under Democratic administrations.

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- ▶ Label references to government policy as "partisan reasoning"
- ▶ By themselves, referring to government policy are not clearly "partisan"
  - ▶ References do not necessarily indicate disagreement across party lines
- ▶ Another test: do references to government policy increasingly use partisan language?
- ▶ One option: use method of Gentzkow et al. (2019) to test whether the language used to reference government policy has become more partisan

Small Comments

1. Additional details about how MCA is estimated would be helpful, even if relegated to an appendix.
2. Additional details about how you code "favorable" versus "unfavorable" partisan responses.

Conclusion

- ▶ Excellent paper!

- ▶ My main suggestions:
    - ▶ Justification for "partisan" narratives.
    - ▶ Do more with the text data to disentagle "rooting for the home team" versus policy approval.

Thank You!