



Economic Performance and Policy Effectiveness under Partisan Government Institutions: 1955-2016

Ling T. He*

Department of Economics and Finance, University of Central Arkansas, USA.

Accepted August 2020

ABSTRACT

This study examines economic performance and effectiveness of monetary and fiscal policies under three different partisan government institutions with the assessment ratio, $(\frac{realGDP}{GDP_{trend}}/\sigma_{inflation})$, which reflects the Fed's dual policy goal (economic growth and price stability) as the overall economic performance or strength measure. Results of this study suggest the following: The overall economic performance significantly higher and the monetary policy is more expansionary under the Democratic presidents. When the Republicans hold the executive power, the policy effectiveness is much weaker, neither monetary nor fiscal policy can significantly improve the overall economic performance. The economic performance under the Democratic House is weaker than that under the Republican one. The tight monetary and stimulating fiscal policies under the Democratic House lead to a marginally lower assessment ratio, much higher inflation and price volatility. The Republican-controlled House uses both policies to fight expected and unexpected inflation, while the Democratic one promotes output growth with the stimulating fiscal policy. Although economic performance is only marginally better under the Democratic Senate, both monetary and fiscal policies are more effective, compared to the Republican one.

©2020 IRABF All rights reserved.

Keywords: economic performance, assessment ratio, policy effectiveness, partisan government institutions

* Corresponding Author, Phone: (501) 450-5334. E-mail: linghe@uca.edu