

# The Politics of Economic Crises?

Ray Duch (Nuffield College Oxford University)

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<sup>1</sup>2009 SUERF/Bank of Finland Conference: Housing Markets - A Shelter from the Storm or Cause of the Storm?

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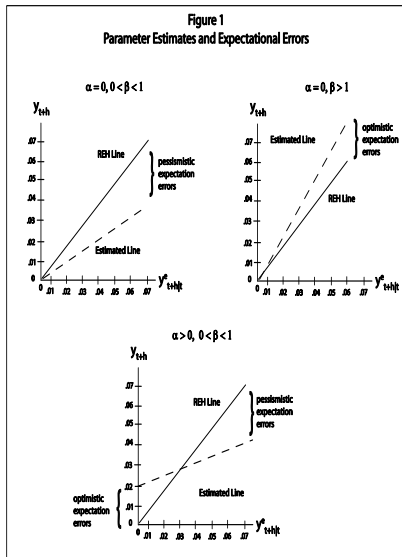
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3. What about housing?

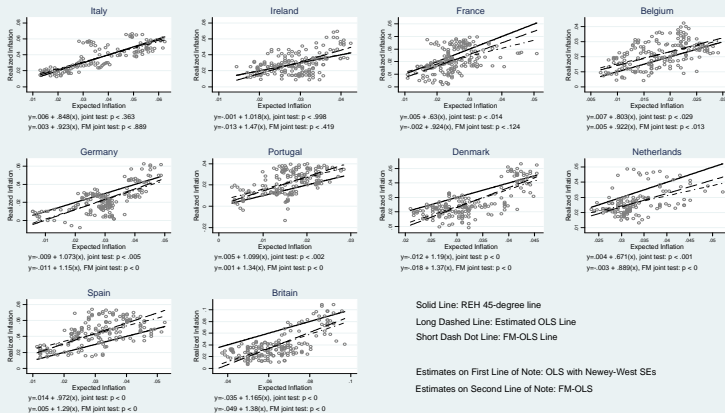
# Inflation Expectations: The REH Hypothesis





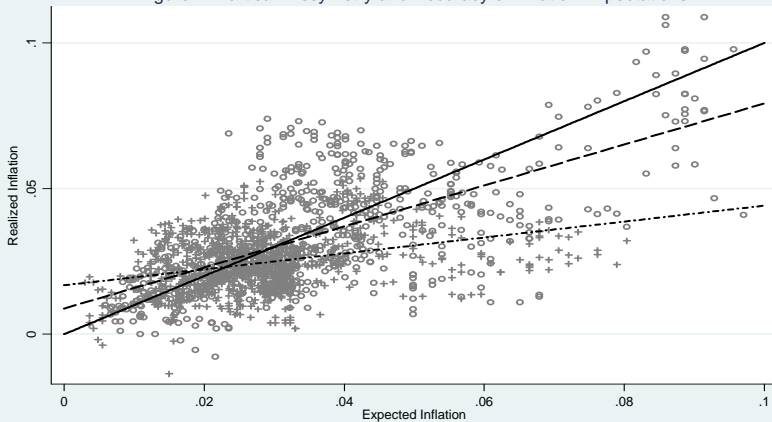
# Inflation Expectations: The REH Results

Figure 2  
Expectations and Realized Inflation in Ten Countries



# Inflation Expectations: A Political Explanation for REH

Figure 4: Partisan Assymetry and Accuracy of Inflation Expectations



# Politics and Irrational Optimism and Pessimism

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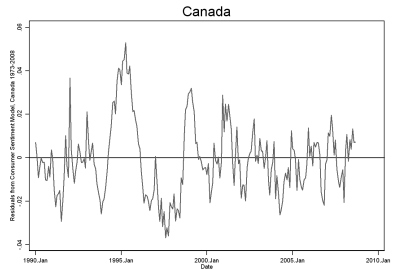
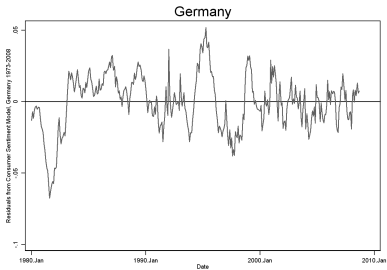
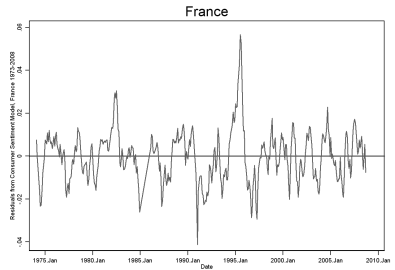
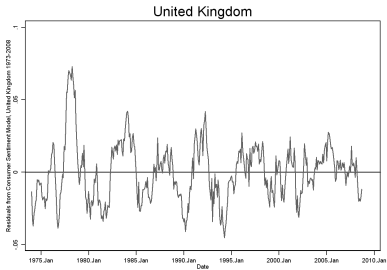
# Politics and Irrational Optimism and Pessimism

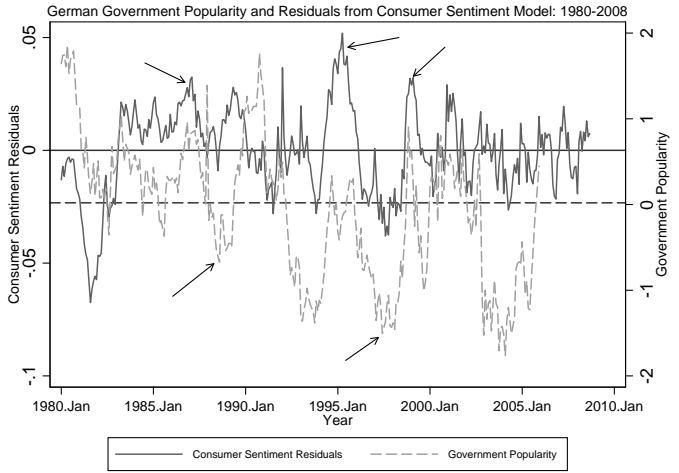
- ▶ Optimism/Pessimism=Residuals of economy regressed on leading indicators
- ▶ Political explanations for "irrational" optimism/pessimism?
- ▶ Regress residual series on perceptions of government handling of macro-economy

# Politics and Irrational Optimism and Pessimism

- ▶ Optimism/Pessimism=Residuals of economy regressed on leading indicators
- ▶ Political explanations for "irrational" optimism/pessimism?
- ▶ Regress residual series on perceptions of government handling of macro-economy
- ▶ Cross-national variation

## Figure: Residuals from Consumer Sentiment Regressions







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- ▶ On macro-economic attitudes partisans differ considerable
- ▶ On attitudes toward housing prices no partisan differences

	Strong Dem	Mod Dem	Lean Dem	Inde- pendent	Lean Rep	Mod Rep	Strong Rep
<b>Unemployment</b>							
Much more	36.2	23.3	39.3	36.0	12.2	8.9	9.4
A little more	36.9	47.6	40.5	40.5	43.2	38.9	35.9
No change	12.8	17.5	14.3	11.2	28.4	22.2	35.9
A little less	9.9	10.7	4.8	10.11	16.22	28.9	17.0
Much less	4.3	0.9	1.2	2.3	0.0	1.1	1.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
N	141	103	84	89	74	90	159
<b>Inflation</b>							
Much higher	35.5	24.5	32.9	30.0	12.2	13.3	9.5
Slightly higher	39.0	48.0	36.5	38.5	44.6	45.6	36.7
Same	21.9	20.6	27.1	27.5	39.2	33.3	41.8
Slightly lower	4.3	6.9	3.5	4.4	4.1	7.8	10.8
Much lower	0.0	1.0	0.0	0.0	0.0	0.0	1.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
N	141	102	85	91	74	90	158

# What about U.S. Politics and Housing Prices?

	Strong Dem	Mod Dem	Lean Dem	Independent	Lean Rep	Mod Rep	Strong Rep
Housing prices							
Much higher	9.9	5.9	7.1	11.0	4.1	6.6	2.5
Slightly higher	7.1	15.7	5.9	20.9	8.2	11.0	13.9
Same	14.9	22.6	12.9	20.9	17.8	30.8	30.4
Slightly lower	41.8	38.2	45.9	30.0	53.4	44.0	44.9
Much lower	26.2	17.7	28.2	17.6	16.4	7.7	8.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
N	141	102	85	91	73	91	158

# Trend in Economic Attitudes over Presidential Campaign

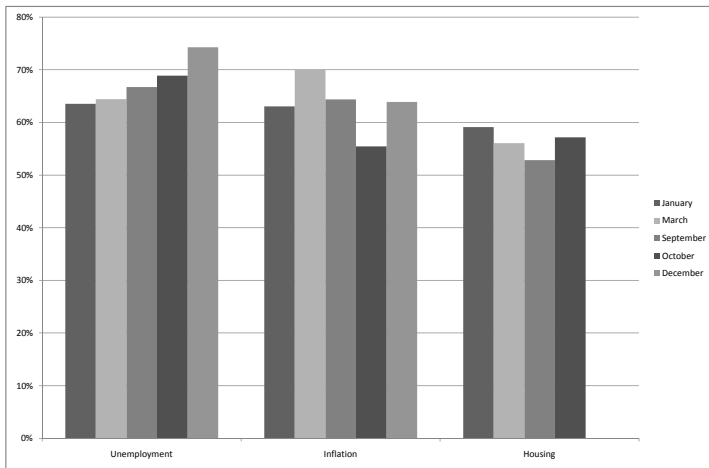


Table: Similar Result for UK Campaign: May 2009

	Labour	Conservative
Unemployment		
Much Higher	28.1	50.9
Slightly Higher	43.5	31.2
Same	9.4	5.6
Slightly Lower	12.9	7.2
Much Lower	3.2	4.2
Total	100.0	100.0
Observations	681	955
Inflation		
Much Higher	3.1	11.6
Slightly Higher	31.1	33.0
Same	32.8	29.2
Slightly Lower	19.4	13.4
Much Lower	4.3	4.2
Total	100.0	100.0
Observations	681	955

Table: What about UK Campaign and Housing Prices?

	Labour	Conservative
Housing prices		
Much Higher	0.44	0.73
Slightly Higher	29.81	23.87
Same	30.84	32.04
Slightly Lower	28.63	33.61
Much Lower	5.87	7.85
Total	100.0	100.0
Observations	681	955



# Some Tentative Observations

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- ▶ Opposition sentiment in the electorate exaggerates the negative (Brown and Sarkozy)
- ▶ Incumbent sentiment exaggerates the positive (Obama)
- ▶ Perceived good handling of economy exaggerates the positive (Merkel?)
- ▶ Housing price expectations not affected by partisanship
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