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Partisan Conflict and Private Investment

Marina Azzimonti*

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Abstract

American politics have been characterized by a high degree of partisan conflict in recent years. Combined with a divided government, this has led not only to significant Congressional gridlock, but also to spells of high fiscal policy uncertainty. The unusually slow recovery from the Great Recession during the same period suggests the possibility that the two phenomena may be related. In this paper, I investigate the hypothesis that political discord depresses private investment. To this end, I construct a novel high-frequency indicator of partisan conflict. The partisan conflict index (PCI) uses a semantic search methodology to measure the frequency of newspaper articles reporting lawmakers' disagreement about policy. I find a negative relationship between the PCI and aggregate investment in the US. Moreover, the decline is persistent, which may help explain the slow recovery observed since the 2007 recession ended. Partisan conflict is also associated with lower capital investment rates at the firm level, even when economic policy uncertainty and macroeconomic conditions are controlled for. I estimate that about 27% of the decline in corporate investment between 2007-2009 can be attributed to a rise in partisan conflict.

JEL Classification: E3, H3.

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