
# Elections, Political Polarization, and Economic Uncertainty

Scott R. Baker[a] , Aniket Baksy[b] , Nicholas Bloom[c] , Steven J. Davis[d] and Jonathan Rodden[b]

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HOOVER INSTITUTION
434 GALVEZ MALL
STANFORD UNIVERSITY
STANFORD, CA 94305-6010

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We examine patterns of economic policy uncertainty (EPU) around national elections in 23 countries. Uncertainty shows a clear tendency to rise in the months leading up to elections. Average EPU values are 13% higher in the month of and the month prior to an election than in other months of the same national election cycle, conditional on country effects, time effects, and country-specific time trends. In a closer examination of U.S. data, EPU rises by 28% in the month of presidential elections that are close and polarized, as compared to elections that are neither. This pattern suggests that the 2020 US Presidential Election could see a large rise in economic policy uncertainty. It also suggests larger spikes in uncertainty around future elections in other countries that have experienced rising polarization in recent years.

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[a] Kellogg School of Management, Northwestern University and NBER
[b] Stanford University
[c] Stanford University and NBER
[d] Chicago Booth School of Business, Hoover Institution and NBER

## 1. Introduction

Uncertainty surrounding economic policy has been a topic of increasing importance over the past decades around the world. A multitude of events including wars, financial crises, and pandemics have pushed governments to respond in unprecedented ways, including large fiscal expansions, unconventional monetary policies, new regulations and a new legislative agenda. At the same time, there has been a widening gap between political actors, parties, and coalitions. These gaps involve disagreement about broad economic policies, both in terms of the objectives of policy but also the means to attain them in response to any given crisis. As a result, the policy regime in effect depends heavily on which party currently has control of government and elections have come to be of primary importance when projecting the path of future economic policy. Elections represent a key source of uncertainty that can affect the investment, spending, and hiring decisions of both firms and individual households.

National elections represent one of the clearest signals about the future of a country's economic policy over the following years. In the months leading up to an election, policies are generally proposed by candidates and expectations about who may win the election may evolve rapidly. Particularly for elections that may hinge on just a few percent of the vote, an election may represent an important shock to the policy and investment environment. In recent years, examples of the both uncertain and consequential nature of elections abound. For instance, consider recent elections such as those in Australia (2013; Tony Abbott), India (2014; Narendra Modi), the United States (2016; Donald Trump), Brazil (2018; Jair Bolsonaro), and the United Kingdom (2019; Boris Johnson). In each of these elections, competing candidates offered starkly different policy proposals, and the change in leadership led to marked changes in economic policies. Many of the results of these elections were unforeseen even days before the election itself.

However, elections are not always so dramatic or consequential. In the United States, voters did not see the two primary parties as especially far apart in the 1960s and 1970s. In contemporary Germany and Austria, voters do not see the policy proposals of mainstream parties of right and left as substantially different, and in fact, these parties routinely form "grand coalitions" with one another. According to Boxell, Gentzkow, and Shapiro (2020), voters' perceptions of the parties in some Northern European democracies are becoming less polarized over time. Yet in the United States and several other democracies, voters have come to see the

parties' platforms as much further apart today than in the past, and they have grown quite hostile in their evaluations of the out-party (Iyengar et al. 2019, Boxell, Gentzkow, and Shapiro 2020).

In the United States, Baker et al. (2014) noted a strong correspondence between the trend toward increasing polarization of Congressional voting behavior, increasingly polarized perceptions of the parties' platforms, and a striking secular increase in policy uncertainty since the 1960s. As voters and investors come to see the parties as further apart, uncertainty about the potential path of economic policy in the years ahead is magnified.

Beyond long-run trends in uncertainty about economic policy, elections matter for driving short-term swings in uncertainty within an electoral cycle. The extent to which elections may drive more significant swings in economic policy means that firms are increasingly exposed to an 'electoral business cycle'. The classic political economy literature hypothesized that opportunistic incumbents would attempt to use fiscal and monetary policy to increase economic growth immediately before elections (Nordhaus (1975)). However, this effect could easily be undone or reversed if policy uncertainty in the pre-election period leads to lower investment. Baker, Bloom, and Davis (2016) demonstrate that firms often adopt a 'wait-and-see' approach to dealing with uncertainty, ceasing investments and new hiring while they wait for uncertainty to resolve. Canes-Wrone and Park (2012) use OECD data since the 1970s to demonstrate that investments with high costs of reversal are delayed in the immediate pre-election period, especially when elections are close, and when the parties' platforms are far apart. Canes-Wrone and Park (2012b) use survey data as well as data from housing markets to show that consumers delay certain major purchases in the run-up to close elections.

In this paper, we investigate patterns of economic policy uncertainty surrounding national elections in more than 20 countries. We utilize a measure of economic policy uncertainty previously developed by the authors that tracks the frequency with which newspapers discuss topics related to economic policy uncertainty. Baker, Bloom, and Davis (2016) perform audits to check whether the method accurately identifies articles about policy-related economic uncertainty. Baker et al. (2019) show that similar methods can be used to successfully track stock market uncertainty, as measured by the VIX and VIX-like measures.

Using these measures of uncertainty both across and within countries, we find that economic policy uncertainty consistently rises in periods near elections. Across all countries, we find increases of 13% relative to the months preceding or following the election period.

Focusing on more detailed data from the United States, we find that this trend is not common to all elections. Many elections are associated with little change in uncertainty about economic policy. For instance, elections in which the electorate is not substantially polarized do not tend to produce as much uncertainty, suggesting that who is in charge is less impactful than how divergent economic policies might be in the case of a win. Moreover, elections that are not 'close' tend not to provoke substantial increases in uncertainty. For these elections, expectations about economic policies from the winning party are likely already crystalized. Since polarization has steadily increased in recent years and presidential elections are more frequently close, election-related spikes in uncertainty have become an important feature of the American investment environment. Most notably, the election in November 2020 is both polarized and (according to betting odds) perceived as close, suggesting this could induce a large spike in economic policy uncertainty.[1]

Following this introduction, Section 2 describes the various datasets utilized in the analysis. Section 3 describes our cross-country analysis and Section 4 focuses on a time series analysis of elections in the United States. Section 5 concludes.

## 2. Data

### 2.1 Economic Policy Uncertainty Data

Given that uncertainty surrounding elections will be primarily driven by considerations about policy and politics, this paper uses a measure of economic policy uncertainty (EPU) developed by Baker, Bloom and Davis (2016) as the primary outcomes measure of interest. We obtain monthly country-level EPU data for 23 countries from https://www.policyuncertainty.com/, which collects and hosts indexes of economic policy uncertainty for countries around the world from a range of academic sources. These indices are derived from the fraction of newspaper articles in a given country and month that discuss matters related to economic policy uncertainty.

Table 1 displays the full coverage of our sample of policy uncertainty data across all countries. This table also notes all the national election dates covered within our sample period.

[1] As of late September, the potential for economic upheaval resulting from electoral uncertainty has been noted by a number of market participants. For instance, Interactive Brokers raised clients' minimum margin requirements by over 33% to protect against market swings anticipated in the run up to the election. See "Interactive Brokers boosts margin requirements ahead of US election", *Financial Times*, September 23, 2020.

We drop all periods within a country that contain only imputed economic policy uncertainty data or have non-competitive elections.[2]

### 2.2 Election Data

We construct a database of elections across all countries in our sample that lie within the range of dates for which we have policy uncertainty data. The coverage of our policy uncertainty data varies widely – it spans 1900-2020 for the United States and the United Kingdom, but only 1998-2020 for Australia. For the year 2020, we only include data until February in our analysis. We obtain election dates by combining information from the Constituency-Level Elections Archive (CLEA) (Kollman et al, 2019) and the Manifesto Project (MP) (Volkens, et al. 2020), and hand-collect data to cover elections missed by the CLEA and the MP.

We focus on the set of national elections that determine and reflect the popular choice of the executive. For Parliamentary systems,[3] this corresponds to Parliamentary elections while for Presidential systems, this corresponds to Presidential elections.[4] Special elections or by-elections for single parliamentary or congressional seats are excluded. For elections which cover multiple months, we choose the month in which the election ends. Similarly, for multi-round elections – a first round and then a runoff election – we define the election month to be the month of the final round.

The electoral cycle across these countries varies substantially. In some countries, elections are on a fixed schedule, while in others the Government is able to call for elections on a more ad-hoc basis. For instance, in the United States, national elections for the President, the head of the

[2] This affects data from China as well as some periods of data for Australia, Colombia, Greece, India, and the Netherlands.

[3] We classify Australia, Belgium, Canada, Croatia, Germany, Greece, India, Ireland, Italy, Japan, the Netherlands, Pakistan, Spain, Sweden and the UK as parliamentary systems. Croatia, Greece and Sweden follow unicameral systems. Australia, Belgium and Spain conduct elections for the lower and the upper houses on the same date. In Canada (the Senate), Germany (the *Bundesrat*), India (the *Rajya Sabha*), Ireland (the *Seanad*), Pakistan (the *Aiwan-e-Bala Pakistan*) and the UK (the House of Lords), members of the upper house are not directly elected and we only use election dates for the Lower House. Japan and the Netherlands have different election cycles for the lower and upper houses of their Parliaments, but have substantially more powerful lower houses – hence, we only use election dates for the Lower houses. In Belgium, elections are held only to fill slots in the legislature, but elections to the lower house of parliament (the Chamber of Representatives) determine who forms the government and the composition of the Council of Ministers. We therefore use dates for elections to the Chamber of Representatives.

[4] We classify Brazil, Chile, Colombia, France, South Korea, Mexico, Russia and the United States as presidential systems.

executive branch, are held in November every four years, while in the United Kingdom, the possibility of calling a snap election means that elections can be held at any time between the formation of a government and the scheduled end of its 5-year term.

### 2.3 Polling Data

We obtain data about the closeness of anticipated election results from Jennings and Wlezien (2018). These researchers combine data on polls from different countries to construct, at a daily frequency, the average expected vote share for each party in the period leading up to a national election. We average across all polls within a country-month to obtain an average expected vote share $EV_{t,m}(p)$ for each party $p$ in each month $m = t-1, t-2, t-3, \ldots$ leading up to the election. The number of polls entering the average is increasing over time – in the United States, the average number of polls rises from around 4 per month in 1952 to around 6 per month in 1976, 18 per month in 1988 and over 30 in 2016.

We are primarily interested in the difference in vote shares of the leading political parties. In the United States, this difference can be expressed as:

$$dEV_{t,m} = |EV_{t,m}(D) - EV_{t,m}(R)|$$

We classify an election as *close* if the expected difference in major-party vote shares in the three months before the election is less than 5%.[5] That is, an election is defined as *close* if:

$$\frac{dEV_{t,t-1} + dEV_{t,t-2} + dEV_{t,t-3}}{3} < 5\%$$

### 2.4 United States Polarization Data

We use data from the American National Election Study (ANES) to build measures of polarization. Between 1952 and 2004, the ANES includes a direct measure of affect (like-dislike)

[5] At this writing in September 2020, the current US presidential election is not close by this metric. However, the election appears to be closer with respect to electoral college votes. Some observers also see the potential for no clear winner to emerge from the November 2020 presidential election, leading to a protracted period of uncertainty and partisan conflict in a highly polarized environment. See, for example, Cochrane (2020). We would like to use prediction markets to quantify the closeness of the election and the likelihood of a hung election. Unfortunately, we do not have historical betting odds back to 1952 and must use polling data for our long-span analysis.

toward either major party (variables VCF0316 and VCF0320 for affect towards Democrats and Republicans respectively), measured on an 11-point scale from -5 ("Maximum Negative") to +5 ("Maximum Positive").

From 1996 onwards, the ANES began asking respondents to place the two major parties on a direct like/dislike scale with 11 points from 0 ("Strongly Dislike") to 10 ("Strongly Like"), in accordance with the methodology used by the Comparative Study of Electoral Systems (CSES). We use this series to extend the affect measure from 2008 to 2016.[6]

We define our measure of Polarization as follows. For election $t$, let $I(t)$ be the set of respondents with a valid affect $A_i(p)$ for both the Democrats ($p = D$) and the Republicans ($p = R$), and let $N(t)$ be the number of respondents in $I(t)$. Let $\omega_i$ be the demographic weight[7] of individual $i$. That is, we define Polarization as:[8]

$$Polar_t = \frac{1}{N_t} \sum_{i \in I(t)} \omega_i |A_i(D) - A_i(R)|$$

Our measure of polarization is based on Affect, but we also consider Ideological Polarization directly. Starting in 1972, the ANES asks respondents to place the two parties on a 7-point scale with 1 denoting "extremely liberal" and 7 denoting "extremely conservative." Denoting these scores by $LC_i(p)$ in analogy with the Affective measure, we compute

$$Polar_t^{ideo} = \frac{1}{N_t} \sum_{i \in I(t)} \omega_i |LC_i(D) - LC_i(R)|$$

Figure 1 shows that our Ideological Polarization measure is strongly correlated with the Affective Polarization measure over the time period for which both measures are available. Since

[6] Our Measure of polarization depends only on the differences between affect toward the two parties, and hence should not be affected by the different centers of the two series.

[7] The weights we use (variable VCF0009z) reflect our choice to use the full data sample (including both face-to-face and web interviews for 2012-16) and that the variables we use are defined as "code-0" variables by the ANES.

[8] Our measures of polarization also covary strongly with the (demographic-weighted) shares of individuals who self-report that they "strongly care" about who wins the Presidential Race (ANES Variable VCF0311), and with the (demographic-weighted) share of individuals who are classified by the ANES as "Strong Democrats" or "Strong Republicans". All measures show a strong increasing trend from the 1970s onward.

the latter is available over a longer time period, we use it in our benchmark calculations. Our results are virtually unchanged if we use the former instead.

## 3. Electoral Uncertainty Across Countries

Across our panel of countries, uncertainty about economic policy is correlated over time, but exhibits substantial cross-sectional variation. Differential election schedules and cycles may drive some of this variation in higher-frequency variation in national economic policy uncertainty. We therefore examine the evolution of economic policy uncertainty across countries in the proximity to national elections.

Let $c, t$ index countries and time (our data is monthly) respectively. We run variants of the panel regression:

$$log\ EPU_{it} = \delta_i + \delta_t + \phi_i t + \sum_{m=-10}^{m=10} \beta_m \mathbf{1}(ElectionDate_{it-m} = 1) + \varepsilon_{it} \qquad (1)$$

where $\delta_i, \delta_t, \phi_i$ represent a country fixed effect, a time (month-year) fixed effect and a country-specific linear time trend respectively. This controls for long-run differences in levels across countries, differences over time common to all countries, and finally country specific long-run trends (e.g. rising policy uncertainty in the US), identifying the high-frequency impact of elections over and above this.

Table 2 shows our results for this approach. First, we run a barebones specification with no fixed effects or trends, and then progressively add country and time fixed effects as well as the country-specific linear trend. In our baseline specification (column 3), we note that the EPU index rises by 13.2% ($e^{0.124}$) in an election period relative to the mean level of EPU in any period outside a 10-month window of an election. Figure 2 shows the time path of Log EPU within this window, relative to the mean level outside the window, showing a clear spike in the months surrounding an election.

Our panel is unbalanced; data for the US and the UK extend back to 1900 but the data for most of the remaining countries begins only in 1985 or afterwards. We re-run our regressions restricting the data to the period after 1985 and find virtually identical estimates. We also confirm that no individual country is responsible for our results by running a jackknife test, where we run the regression while leaving each country out one at a time and obtain robust coefficients.

## 4. Economic Policy Uncertainty and United States Elections

Next, we conduct a more in-depth study of the US case, taking advantage of a longer time series and the availability of high-quality data on polarization. We obtain data on whether elections were close or polarized for all elections in the US from 1952 onward. As noted above, we measure polarization by the mean absolute deviation between party affect across individuals. We define an election as polarized if it is above the median level of polarization in the data,[9] and we define an election as close if the mean difference between the polled vote shares for the two parties in the three months prior to the election is greater than 5 percentage points.

Our data on polarization and closeness are at the election level, not at the monthly level. To incorporate these measures into our analysis we first define the *election cycle* associated with an election as the period of 31 months prior to and 16 months after the election, including the election itself.[10] We classify each *election cycle* as being polarized or not and being associated with a close election or not. We display a list of these elections as well as their various classifications and results in Table 3.

We first characterize the behavior of Policy Uncertainty in the periods surrounding a typical US presidential election. To do this, we run the regression

$$\log EPU_t = \delta_m + \delta_c + \sum_{m=-6}^{m=2} \beta_m \mathbf{1}(\text{ElectionDate}_{t-m} = 1) + \varepsilon_t \qquad (2)$$

where $t$ indexes dates, $\delta_m$ is a month fixed effect to deal with seasonality in the EPU index and $\delta_c$ is an election cycle fixed effect. The coefficient $\beta_m$ represents the level of $\log EPU$ measured $m$ periods after an election (for instance, $\beta_{-1}$ corresponds to the month immediately prior to an election), relative to the mean level over the entire election cycle. Our estimates are in column 1 of Table 4. These estimates suggest that EPU rises by 18.3% ($e^{0.168}$) in the November of a typical election relative to the surrounding election cycle.

[9] The median polarization level is around 2, reflecting a mean absolute difference of two affect points on a scale of 11.

[10] By defining each election cycle to encompass leads and lags of the corresponding $ElectionDate$ variable in (2), we can absorb the main effects of interaction variables considered below into $\delta_c$. Beyond that, it matters little exactly how we select the 48-month interval that defines an election cycle.

### 4.1 Drivers of Uncertainty around US Elections

We study the impact of whether an election is perceived to be close or not and the impact of polarization on the behavior of policy uncertainty around a Presidential Election. Our main regression model (which we henceforth refer to as the **restricted** model) is

$$\log EPU_t = \delta_m + \delta_c + \sum_{m=-6}^{m=2} (\beta_m + \gamma \mathrm{X_c}) \mathbf{1}(\mathrm{ElectionDate_{t-m}} = 1) + \varepsilon_t \tag{3}$$

where $\delta_m$ and $\delta_c$ are month and election cycle fixed effects and the variable $X_c$ is a dummy variable which is constant at 1 if the election cycle meets a particular criterion and is 0 otherwise. In Column 2, we let $X_c = 1$ if affective polarization in the corresponding election is above its median value. In column 3, we let $X_c = 1$ if the corresponding election was classified as close (i.e. the three-month average difference in polls between the Democrats and Republicans was smaller than 5%). In column 4, we let $X_c = 1$ if the corresponding election was both close and polarized by the above definitions.

Table 4 shows that both polarization and electoral closeness drive the behavior of policy uncertainty in an environment of elections. Our estimates in column 2 and 3 suggest that in any given period around an election our measure of policy uncertainty is 12.2% ($e^{0.116}$) higher if the election cycle is above median polarized, and is 18.6% ($e^{0.171}$) higher if the election is close (polls less than 5% apart). Column 4 shows that the interaction of closeness and polarization produces a 27.6% ($e^{0.244}$) higher level of policy uncertainty than the typical election cycle that is neither polarized nor close. Our estimates are robust to the inclusion of a linear time trend.

Note that we restrict the value of $\gamma$ to be equal across all election cycles and across all periods relative to the election. This restriction implies that the difference between the (conditional) level of $\log EPU$ in a polarized election cycle relative to a non-polarized election cycle measured $m$ periods after an election is restricted to be constant and equal to $\gamma$.

We also run an **unrestricted** variant of model (3),

$$\begin{aligned}\log EPU_t = \ & \delta_m + \delta_c \\ & + \sum_{m=-6}^{m=2} \beta_m \mathbf{1}(\text{ElectionDate}_{\text{t-m}} = 1) \\ & + \ \gamma_m \mathbf{1}(\text{ElectionDate}_{\text{t-m}} = 1)\mathbf{1}(\text{X}_c = 1) + \varepsilon_t\end{aligned} \tag{4}$$

In this specification, we can interpret $\gamma_m$ as the conditional excess $\log EPU$ in a polarized election cycle relative to a non-polarized election cycle $m$ months after an election. Table 5 shows our estimates for this specification, with the columns specified analogous to the scheme in Table 4. Figures 3, 4 and 5 plot the coefficients on the period dummies and the interactions of these variables with indicators for election cycles that are polarized, close and both close and polarized respectively.[11]

The final rows of Table 5 show the $p$-values of two tests of the hypotheses we perform on the $\gamma$'s. First, we test the null hypothesis that all the interactions are jointly zero (i.e. $\gamma_{-6} = \cdots = \gamma_2 = 0$). While we fail to reject the null in the specification with interactions only for polarized elections, we can reject it for the specifications with interactions for close elections and with interactions for close and polarized elections. Second, we test the null hypothesis that all the interactions are equal (i.e. $\gamma_{-6} = \cdots = \gamma_2$). We fail to reject this hypothesis in any of our specifications, which helps justify our choice of regression (3) as our baseline.

### 4.2 Polarization and Spikes in Uncertainty around Elections

Let $c(t)$ be the election cycle corresponding to election $t$ and $N$ be the number of dates in an election cycle. Define the Election Spike for election $t$ by

$$ElectionSpike_t = \sum_{m=t-6}^{m=t+2} (\log EPU_m - \overline{\log EPU_{c(t)}}) \tag{5}$$

where:

$$\overline{\log EPU_{c(t)}} = \frac{1}{N} \sum_{m \in c(t)} \log EPU_m$$

[11] An interesting pattern in each of these figures is a short-term dip in policy uncertainty around three months before the election. This corresponds to the timing of the party conventions, when uncertainty about candidates and party platforms is resolved.

Intuitively, the election spike represents the cumulative excess policy uncertainty in an interval starting 6 months before and ending 2 months after an election, relative to the baseline level prevailing in that election cycle. We choose the longer pre-period to capture the run-up in uncertainty associated with party primaries. We also compute the analogous measure for the period from 2 months before an election until (and including) the month of the election, as this is the period for which our cross-country regression suggests the run-up in uncertainty prior to the election is highest. Figure 6 plots both of these spike indicators over time since 1952, also including our measure of affective polarization. It shows that the size of the election spike closely tracks the level of affective polarization in that election cycle. Above all, the recent increase in polarization has been associated with especially large spikes in uncertainty.

## 5. Conclusion

Policy uncertainty has been steadily growing in the United States since the 1990s. The long-term trend tracks closely with increased political polarization. The two parties are viewed by voters and investors as offering increasingly divergent platforms. The COVID-19 pandemic has led to a massive increase in the federal government's role in the economy, a large increase in public debt, and a growing fiscal crisis for state and local governments. Partly as a result, future government policy is increasingly important as a factor in investment decisions of firms and individuals.

In this paper, we have shown that as polarization has grown and battles over control of the government have become more hotly contested, presidential elections have come to be associated with larger spikes in economic policy uncertainty. This finding dovetails with the observation that stock market volatility, as measured by the VIX index, tends to increase in the month before elections.[12] We have also found evidence of sizable election-induced spikes in policy uncertainty in other democracies around the world.

As the 2020 election approaches, policy uncertainty in the United States is once again high and volatile. The US EPU index reached new highs in the Spring of 2020 during the uneven U.S. response to the COVID pandemic. A variety of important policies are likely to change if the incumbent president is unseated. As of this writing, the election is, according to betting markets,

[12] See "Traders Brace for Haywire Markets Around Presidential Election," *Wall Street Journal*, August 16, 2020, and "Investors brace for months of big market swings as virus, political worries loom", *Reuters*, September 21, 2020.

reasonably close and highly polarized, heralding potentially high levels of policy uncertainty in November 2020. Perhaps the greatest danger, however, lies in an election that is still being contested in the courts in December or January.

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**Table 1: EPU and Elections, Global Sample Description**

| Country | Sample Start | Sample End | Elections |
|---|---|---|---|
| Australia | 1998m1 | 2020m7 | 1998m10, 2001m11, 2004m10, 2007m11, 2010m8, 2013m9, 2016m7, 2019m5 |
| Belgium | 2001m1 | 2020m7 | 2003m5, 2007m6, 2010m6, 2014m5, 2019m5 |
| Brazil | 1991m1 | 2020m7 | 1994m10, 1998m10, 2002m10, 2006m5, 2010m10, 2014m10, 2018m10 |
| Canada | 1985m1 | 2020m7 | 1988m11, 1993m10, 1997m6, 2000m11, 2004m6, 2006m1, 2008m10, 2011m5, 2015m10, 2019m10 |
| Chile | 1993m1 | 2020m2 | 1993m12, 1997m12, 2000m1, 2006m5, 2010m1, 2013m12, 2017m12 |
| Colombia | 2000m1 | 2020m1 | 2002m5, 2006m5, 2010m6, 2014m6, 2018m6 |
| Croatia | 2003m1 | 2020m4 | 2003m11, 2007m11, 2011m12, 2015m11, 2016m9 |
| France | 1987m1 | 2020m7 | 1988m5, 1995m5, 2002m5, 2007m5, 2012m5, 2017m5 |
| Germany | 1993m1 | 2020m7 | 1994m10, 1998m9, 2002m9, 2005m9, 2009m9, 2013m9, 2017m9 |
| Greece | 1998m1 | 2020m6 | 2000m4, 2004m3, 2007m9, 2009m10, 2012m5, 2012m6, 2015m1, 2015m9 |
| India | 2003m1 | 2020m7 | 2004m3, 2009m3, 2014m5, 2019m5 |
| Ireland | 1985m1 | 2020m3 | 1987m2, 1989m6, 1992m11, 1997m6, 2002m5, 2007m5, 2011m2, 2016m2 |
| Italy | 1997m1 | 2020m7 | 2001m5, 2006m4, 2008m4, 2013m2, 2018m3 |
| Japan | 1987m1 | 2020m7 | 1990m2, 1993m7, 1996m10, 2000m6, 2003m11, 2005m9, 2009m8, 2012m12, 2014m12, 2017m10 |
| South Korea | 1990m1 | 2020m6 | 1992m12, 1997m12, 2002m12, 2007m12, 2012m12, 2017m5 |
| Mexico | 1996m1 | 2020m5 | 2000m7, 2006m7, 2012m7, 2018m7 |
| Netherlands | 2003m3 | 2020m5 | 2006m11, 2010m6, 2012m9, 2017m3 |
| Pakistan | 2010m8 | 2020m5 | 2013m5, 2018m7 |
| Russia | 1994m1 | 2020m7 | 1996m7, 2000m3, 2004m3, 2008m3, 2012m3, 2018m3 |
| Spain | 1997m1 | 2020m7 | 2000m3, 2004m3, 2008m3, 2011m11, 2015m12, 2016m6, 2019m4, 2019m11 |
| Sweden | 1985m1 | 2020m5 | 1985m9, 1988m9, 1991m9, 1994m9, 1998m9, 2002m9, 2006m9, 2010m9, 2014m9, 2018m9 |
| UK | 1900m1 | 2020m7 | 1900m10, 1906m1, 1910m1, 1910m12, 1918m12, 1922m11, 1923m12, 1924m10, 1929m5, 1931m10, 1935m11, 1945m7, 1950m2, 1951m10, 1955m5, 1959m10, 1964m10, 1966m3, 1970m6, 1974m2, 1974m10, 1979m5, 1983m6, 1987m6, 1992m4, 1997m5, 2001m6, 2005m5, 2010m5, 2015m5, 2017m6, 2019m12 |
| US | 1900m1 | 2020m7 | 1900m11 to 2016m11, every four years |

**Notes:** Coverage of the dataset for EPU and Elections. Start and end dates of the sample are determined by the availability of the EPU series. We obtain election dates by combining the Constituency-Level Elections Archive (CLEA) (Kollman, et al. 2019) and hand-collect data to cover elections missed by the CLEA. We choose elections that reflect popular choice of the executive, corresponding to the Parliament in Parliamentary systems and Presidential elections in presidential systems. For more details on the choice of elections, see main text.

**Table 2: EPU and Elections**

| | (1) | (2) | (3) |
|---|---|---|---|
| 2 Months before Election | 0.0194 | 0.0599 | 0.0611 |
| | (0.0502) | (0.0440) | (0.0402) |
| 1 Month before Election | 0.109** | 0.130*** | 0.130*** |
| | (0.0443) | (0.0365) | (0.0347) |
| Month of Election | 0.133*** | 0.124*** | 0.124*** |
| | (0.0311) | (0.0287) | (0.0270) |
| 1 Month after Election | 0.00442 | 0.0241 | 0.0253 |
| | (0.0263) | (0.0223) | (0.0205) |
| 2 Months after Election | -0.00105 | 0.00196 | 0.00505 |
| | (0.0311) | (0.0293) | (0.0294) |
| Country Fixed Effects | No | Yes | Yes |
| Year-Month Fixed Effects | No | Yes | Yes |
| Country-Specific Trends | No | No | Yes |
| Observations | 9292 | 9292 | 9292 |
| F-Statistic, p-value | 0.0007 | 0.001 | 0.0004 |

* p<0.1, ** p<0.05, *** p<0.01.

**Notes:** Estimates for equation (1) on the global sample (countries covered include Australia, Belgium, Brazil, Canada, Chile, Colombia, Croatia, France, Germany, Greece, India, Ireland, Italy, Japan, Korea, Mexico, Netherlands, Pakistan, Russia, Spain, Sweden, the UK, and the US. For details on countries, coverage and election dates considered, see Table 1). An observation is a country-month-year, and the Dependent variable in all three regressions is log(EPU). Column 1 shows results for a pooled OLS regression of Log EPU on dummies for the number of periods until and after an election; to conserve on space we only report the values for two periods pre and post the election. Columns 2 and 3 add country and month-year fixed effects, and country-specific trends respectively. Standard errors (in parentheses) are clustered at the country level. The final row shows the p-value for an F-test of the joint significance of the dummies on the month of and the month prior to an election.

**Table 3: US Presidential Elections, 1952 onwards**

| Election | President Elected | Popular Vote Share | | Winner's Margin | | Polarized? | Close? | Incumbent Party Victory? |
|---|---|---|---|---|---|---|---|---|
| | | Republican | Democratic | Actual | Expected | | | |
| 1952 | Dwight D. Eisenhower (R) | 55.2 | 44.3 | 10.9 | 12 | **Yes** | No | No |
| 1956 | Dwight D. Eisenhower (R) | 57.4 | 42.2 | 15.2 | 11.78 | **Yes** | No | **Yes** |
| 1960 | John F. Kennedy (D) | 49.6 | 49.7 | 0.1 | 0.61 | **Yes** | **Yes** | No |
| 1964 | Lyndon B. Johnson (D) | 38.5 | 61 | 22.5 | 38.5 | **Yes** | No | **Yes** |
| 1968 | Richard Nixon (R) | 43.4 | 42.7 | 0.7 | 8.25 | **Yes** | No | No |
| 1972 | Richard Nixon (R) | 60.7 | 37.5 | 23.2 | 27.62 | No | No | **Yes** |
| 1976 | Jimmy Carter (D) | 48 | 50.1 | 2.1 | 7.54 | No | No | No |
| 1980 | Ronald Reagan (R) | 50.7 | 41 | 9.7 | 4.79 | No | **Yes** | No |
| 1984 | Ronald Reagan (R) | 58.8 | 40.6 | 18.2 | 17.49 | No | No | **Yes** |
| 1988 | George H.W. Bush (R) | 53.4 | 45.6 | 7.8 | 2.99 | No | **Yes** | **Yes** |
| 1992 | William Clinton (D) | 37.4 | 43 | 5.6 | 13.18 | No | No | No |
| 1996 | William Clinton (D) | 40.7 | 49.2 | 8.5 | 15.1 | **Yes** | No | **Yes** |
| 2000 | George W. Bush (R)* | 47.9 | 48.4 | -0.5 | 0.68 | No | **Yes** | No |
| 2004 | George W. Bush (R) | 50.7 | 48.3 | 2.4 | 2 | **Yes** | **Yes** | **Yes** |
| 2008 | Barack Obama (D) | 45.7 | 52.9 | 7.2 | -1.67 | **Yes** | **Yes** | No |
| 2012 | Barack Obama (D) | 47.2 | 51.1 | 3.9 | 0.86 | **Yes** | **Yes** | **Yes** |
| 2016 | Donald Trump (R)* | 45.9 | 48.1 | -2.2 | -4.44 | **Yes** | **Yes** | No |

*****: Democrats won the popular vote but lost the Presidency.

Classification of US Presidential Elections with respect to Polarization, closeness and incumbency. An election is classified as polarized if the level of affective polarization is higher than the median value over the sample. An election is classified as close if the difference in expected vote shares, as measured by polling, is greater than 5% on average over the three months prior to the election. A negative Expected Margin indicates an upset, where the party winning the presidency was on average expected to lose the election. The columns for the Democratic and Republican vote shares need not sum to 100 if there were third-party candidates. Polling data from Jennings and Wlezien (2016).

**Table 4: Polarized and Ex-Ante Close Elections Have Higher Policy Uncertainty**

| Dependent Variable: Log(Economic Policy Uncertainty) | | | | |
|---|---|---|---|---|
| | **(1)** | **(2)** | **(3)** | **(4)** |
| Polarized*(Election) | | 0.116*** | | |
| | | (0.0413) | | |
| Close*(Election) | | | 0.171*** | |
| | | | (0.0430) | |
| Polarized & Close*(Election) | | | | 0.244*** |
| | | | | (0.0529) |
| 6 Months prior | -0.0254 | -0.0938* | -0.106** | -0.0973* |
| | (0.0486) | (0.0557) | (0.0523) | (0.0546) |
| 5 Months prior | 0.00335 | -0.0650 | -0.0773 | -0.0685 |
| | (0.0622) | (0.0618) | (0.0612) | (0.0572) |
| 4 Months prior | 0.00128 | -0.0671 | -0.0793 | -0.0706 |
| | (0.0565) | (0.0584) | (0.0569) | (0.0524) |
| 3 Months prior | -0.0325 | -0.101 | -0.113* | -0.104 |
| | (0.0574) | (0.0639) | (0.0642) | (0.0635) |
| 2 Months prior | -0.0552 | -0.124 | -0.136* | -0.127 |
| | (0.0864) | (0.0842) | (0.0823) | (0.0779) |
| 1 Month prior | 0.0267 | -0.0417 | -0.0539 | -0.0452 |
| | (0.0798) | (0.0796) | (0.0764) | (0.0724) |
| Month of Election | 0.168** | 0.0998 | 0.0876 | 0.0963 |
| | (0.0675) | (0.0678) | (0.0612) | (0.0593) |
| 1 Month post | -0.0145 | -0.0829 | -0.0951 | -0.0864 |
| | (0.0681) | (0.0701) | (0.0658) | (0.0650) |
| 2 Months post | -0.0788 | -0.147* | -0.159** | -0.151** |
| | (0.0776) | (0.0769) | (0.0741) | (0.0722) |
| Observations | 816 | 816 | 816 | 816 |

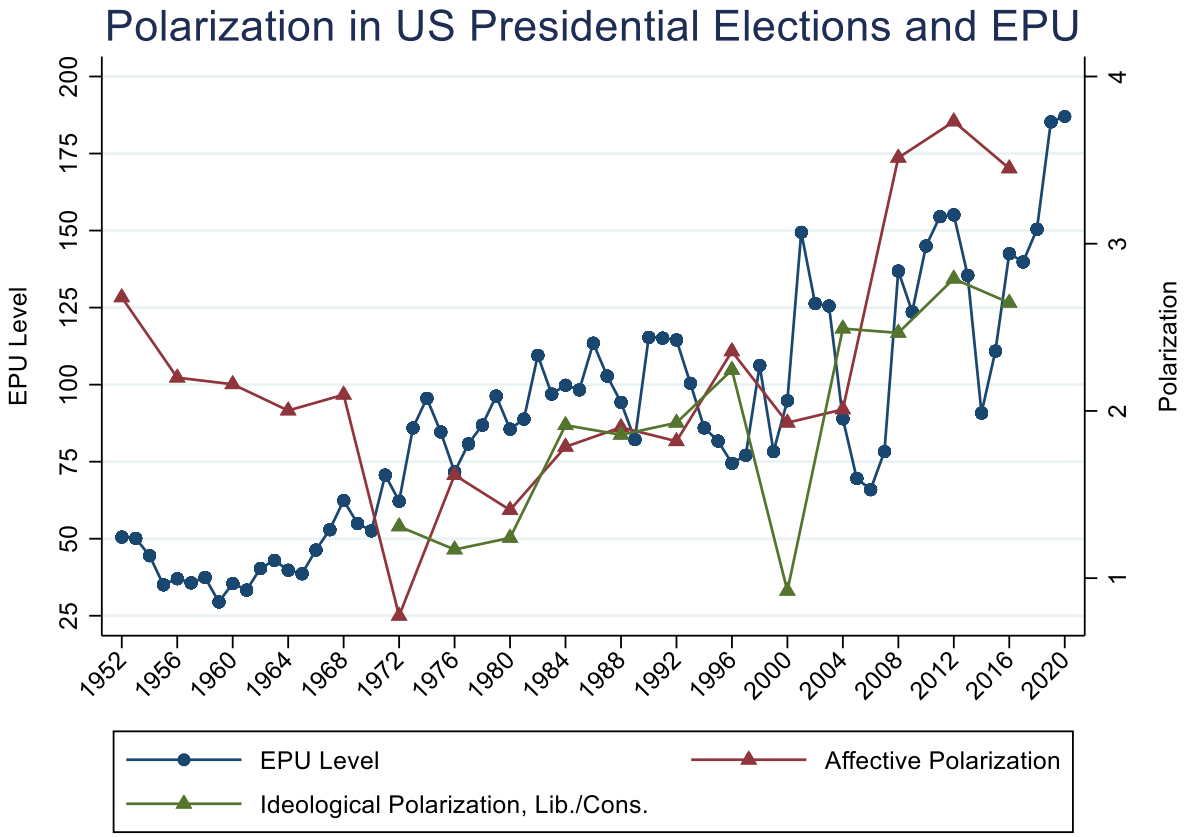
**Notes:** Estimation results for restricted specification. An observation is a month and the sample runs from April 1950 to March 2018. Column 1 reports results for the baseline regression (2). Columns 2, 3 and 4 add interactions for election cycles classified as polarized, close or both close and polarized respectively (see specification (3)). An election is classified as polarized if the corresponding level of affective polarization is above the median value. An election is classified as ex-ante close if the difference in expected vote shares is greater than 5% over the three months prior to the election. For details on classifications of elections, see Table 3. All specifications contain a full set of month and election cycle fixed effects. HAC Standard errors in parentheses. * p<0.1, ** p<0.05, *** p<0.01

## Table 5: Unrestricted Regression Estimates

| | (1) **Baseline** | (2) **Polarized, Affective** | (4) **Ex-Ante Close** | (5) **Both Polarized (Affective) and Ex-Ante Close** |
|---|---|---|---|---|
| 6 Months prior | -0.0254 | -0.0258 | -0.0858 | -0.0466 |
| | (0.0486) | (0.0642) | (0.0684) | (0.0601) |
| 6 Months prior, interaction | | 0.000573 | 0.128* | 0.0720 |
| | | (0.0802) | (0.0755) | (0.0720) |
| 5 Months prior | 0.00335 | -0.0991 | -0.0698 | -0.0712 |
| | (0.0622) | (0.0644) | (0.0611) | (0.0516) |
| 5 Months prior, interaction | | 0.174* | 0.155 | 0.253* |
| | | (0.0998) | (0.112) | (0.146) |
| 4 Months prior | 0.00128 | -0.113 | -0.0778 | -0.0784 |
| | (0.0565) | (0.0753) | (0.0661) | (0.0575) |
| 4 Months prior, interaction | | 0.195** | 0.168** | 0.271*** |
| | | (0.0844) | (0.0856) | (0.0781) |
| 3 Months prior | -0.0325 | -0.0660 | -0.0157 | -0.0484 |
| | (0.0574) | (0.0889) | (0.0656) | (0.0704) |
| 3 Months prior, interaction | | 0.0570 | -0.0358 | 0.0541 |
| | | (0.0962) | (0.0903) | (0.0793) |
| 2 Months prior | -0.0552 | -0.121 | -0.151* | -0.165** |
| | (0.0864) | (0.0771) | (0.0822) | (0.0698) |
| 2 Months prior, interaction | | 0.111 | 0.204 | 0.373* |
| | | (0.139) | (0.154) | (0.196) |
| 1 Month prior | 0.0267 | -0.0518 | -0.0779 | -0.0719 |
| | (0.0798) | (0.0867) | (0.0823) | (0.0677) |
| 1 Month prior, interaction | | 0.133 | 0.222 | 0.335* |
| | | (0.132) | (0.138) | (0.177) |
| Month of Election | 0.168** | 0.0853 | 0.0313 | 0.0659 |
| | (0.0675) | (0.0717) | (0.0546) | (0.0582) |
| Month of Election, interaction | | 0.141 | 0.291*** | 0.348*** |
| | | (0.105) | (0.0992) | (0.120) |
| 1 Month post | -0.0145 | -0.0782 | -0.0908 | -0.0768 |
| | (0.0681) | (0.0866) | (0.0609) | (0.0628) |
| 1 Month post, interaction | | 0.108 | 0.162 | 0.212 |
| | | (0.115) | (0.119) | (0.153) |
| 2 Months post | -0.0788 | -0.153* | -0.195** | -0.162** |
| | (0.0776) | (0.0837) | (0.0837) | (0.0729) |
| 2 Months post, interaction | | 0.126 | 0.247* | 0.282* |
| | | (0.130) | (0.133) | (0.170) |
| Observations | 816 | 816 | 816 | 816 |
| Interactions Jointly 0, p-value | | 0.218 | 0.00707 | 0.000773 |
| Interactions Equal, p-value | | 0.863 | 0.471 | 0.202 |

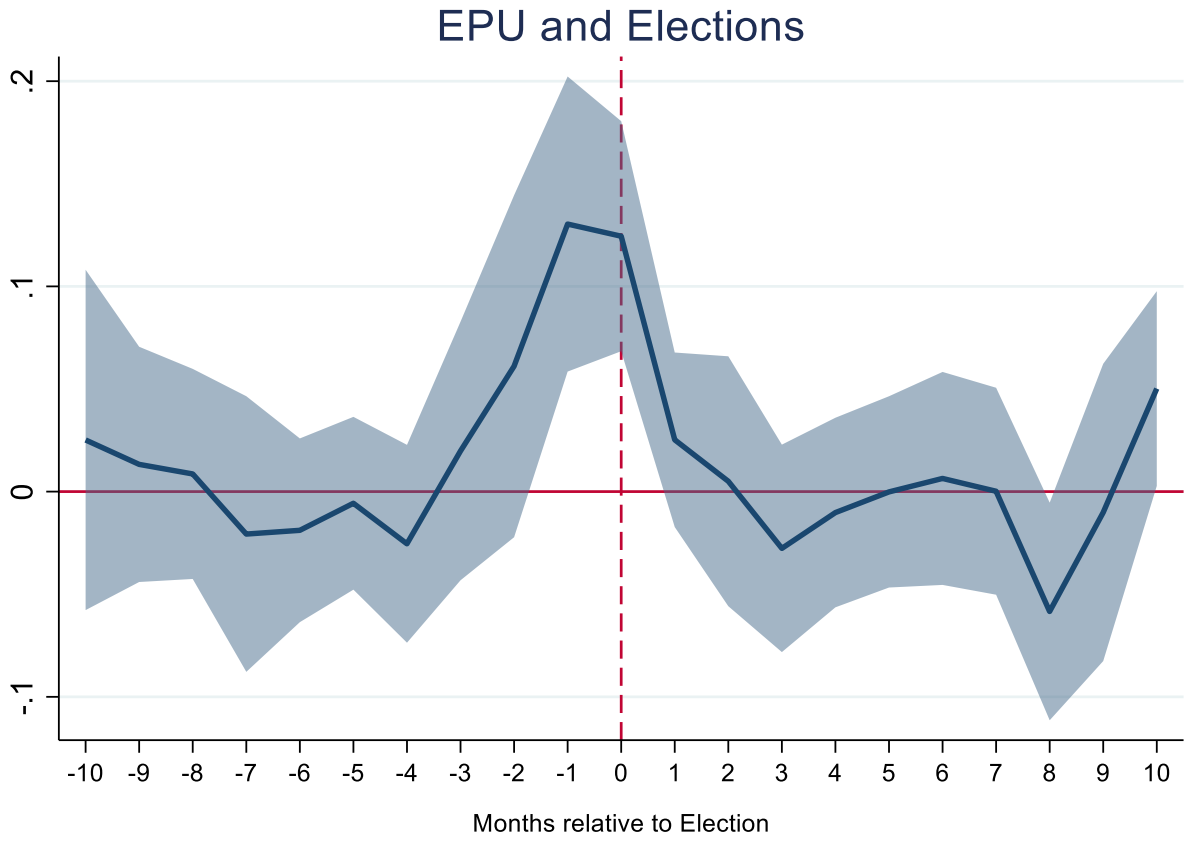
**Notes:** Estimation results for unrestricted specification (4). An observation is a month and the sample runs from April 1950 to March 2018. Column 1 reports results for the baseline regression (2). Columns 2, 3 and 4 add interactions for election cycles classified as polarized, close or both close and polarized respectively (see specification (3)). For details on classifications of elections, see Table 3 and main text. All specifications contain a full set of month and election cycle fixed effects. HAC Standard errors in parentheses. * p<0.1, ** p<0.05, *** p<0.01

**Figure 1**



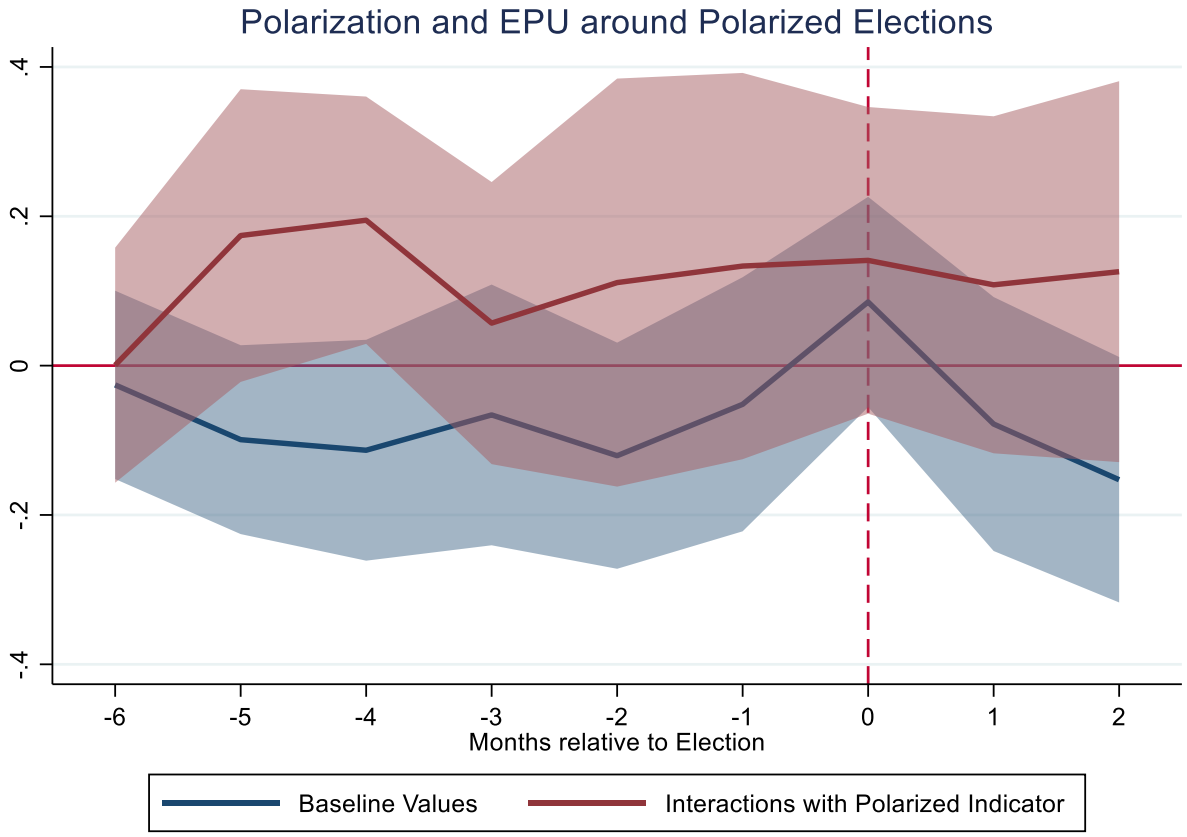

**Notes:** Time series of the level of policy uncertainty and a measure of affective polarization in the US for elections 1952-2016. Policy uncertainty (the left axis) is measured using the level of the EPU normalized so that the mean level between 1985 and 2009 is 100, and then averaged across months within each year. For 2020, we only include data until February. Affective polarization is measured by the mean absolute difference in affect between parties averaged over all respondents and weighted by demographic weights (right axis). Ideological polarization is an analogous measure, calculated as the mean absolute difference in ideological positions on a Liberal – Conservative scale, between parties averaged over all respondents and weighted by demographic weights (right axis). Policy uncertainty data from policyuncertainty.com, and our polarization data is created using the ANES.

**Figure 2**



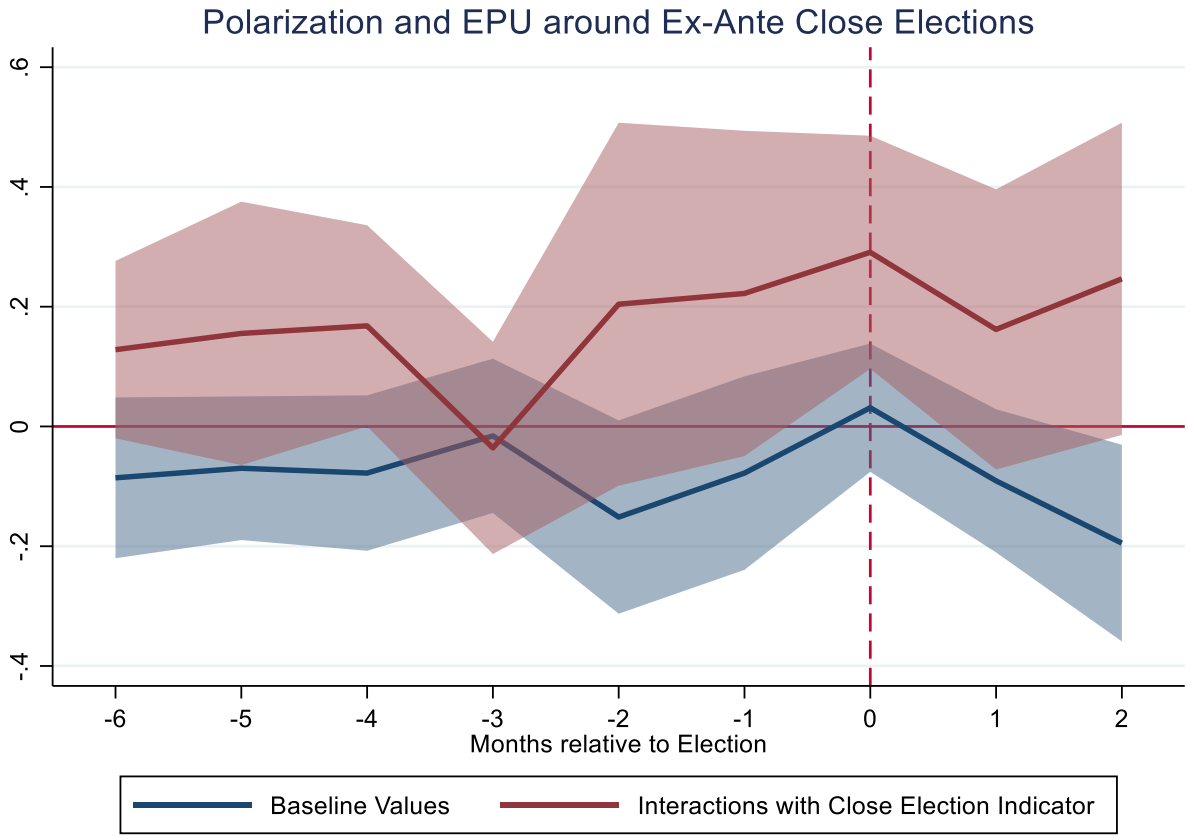

**Notes:** Coefficients on dummies for 10 periods prior to and after an election from regression (1) (i.e. specification (3) in Table 2). The solid line reflects the behavior of log(EPU) in a period surrounding an election relative to periods outside a 15-month window of an election. An observation is a country-month-year, and the Dependent variable is log(EPU). The regression is run on the global sample of countries listed in Table 1. The shaded region depicts the 95% confidence intervals implied by standard errors clustered at the country level.

**Figure 3**



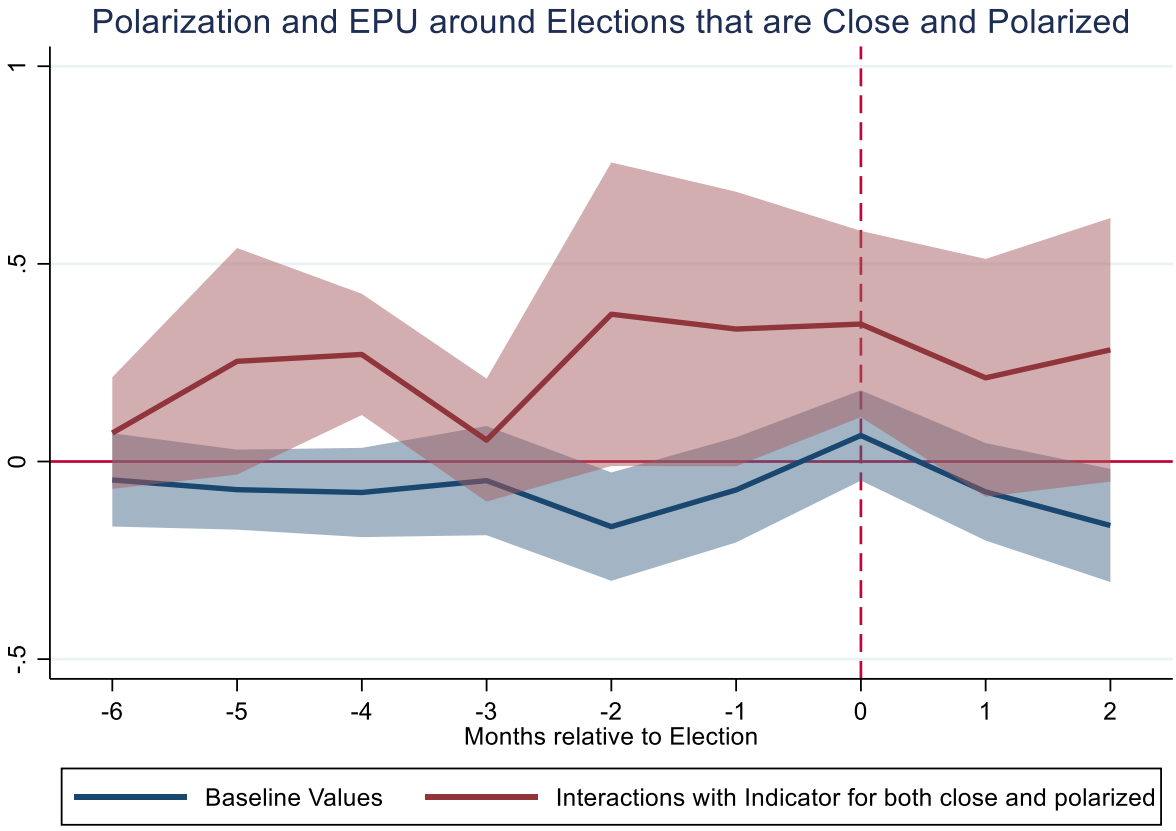

**Notes:** Coefficients in the Unrestricted Regression (4), column 2. The blue line depicts the coefficients on the dummies for a given number of periods relative to the election, while the red line depicts the coefficients on the interaction of these dummies with an indicator for a polarized election cycle. An observation is a month and the sample runs from April 1950 to March 2018. An election cycle is classified as polarized if the level of affective polarization is higher than the median value over the sample. Results are robust adding a linear time trend. The shaded areas represent 95% confidence intervals computed using HAC Standard Errors.

**Figure 4**



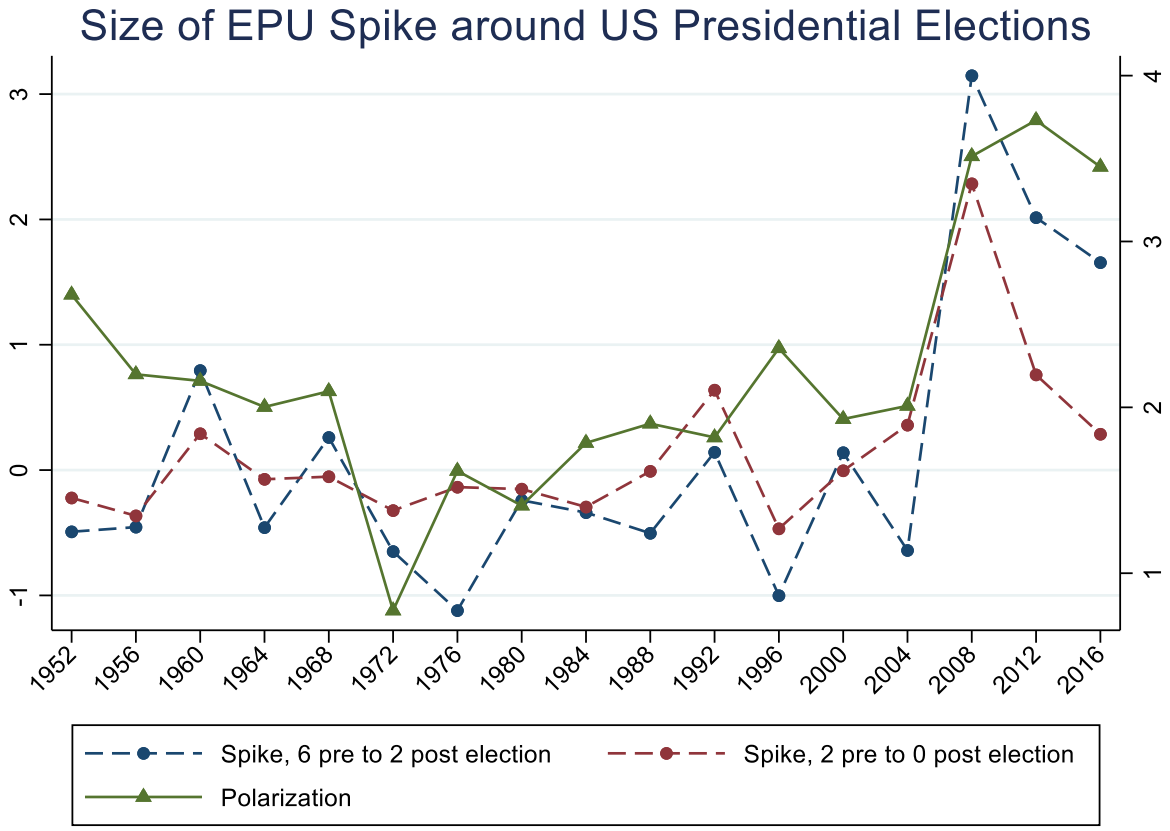

**Notes:** Coefficients in the Unrestricted Regression (4), column 3. The blue line depicts the coefficients on the dummies for a given number of periods relative to the election, while the red line depicts the coefficients on the interaction of these dummies with an indicator for a polarized election cycle. An observation is a month and the sample runs from April 1950 to March 2018. An election is classified as close if the difference in expected vote shares, as measured by polling, is greater than 5% on average over the three months prior to the election. Results are robust adding a linear time trend. The shaded areas represent 95% confidence intervals computed using HAC Standard Errors.

**Figure 5**




**Notes:** Coefficients in the Unrestricted Regression (4), column 4. The blue line depicts the coefficients on the dummies for a given number of periods relative to the election, while the red line depicts the coefficients on the interaction of these dummies with an indicator for a polarized election cycle. An observation is a month and the sample runs from April 1950 to March 2018. An election cycle is classified as polarized if the level of affective polarization is higher than the median value over the sample. An election is classified as close if the difference in expected vote shares, as measured by polling, is greater than 5% on average over the three months prior to the election. Results are robust adding a linear time trend. The shaded areas represent 95% confidence intervals computed using HAC Standard Errors.

**Figure 6**




**Notes**: Election spikes as defined in (5) over time, for i) spikes starting 6 months prior to an election to 2 months post an election in the US (left axis) and ii) spikes starting 2 months prior to an election to the month of the election in the US (left axis), against affective polarization (right axis). The election spike measures the cumulative excess uncertainty (in log points) in the run-up to an election and immediately after it, relative to the level of uncertainty prevailing in the election cycle. We measure this spike between the May of the year of the election and the January following the election to adequately capture the run-up in uncertainty that can result as party primary elections and debates occur, and the resolution of uncertainty when the newly-elected government takes office.