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Spending Multipliers and the Party in Power: Evidence from United States Political Cycles

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Abstract

I analyze U.S. government spending multipliers conditional on the political cycle. The results indicate that, in many specifications, multipliers are positive during second terms and negative during first terms. Moreover, across all formulations, multipliers are positive under Democratic administrations and negative under Republican administrations. These findings are robust to alternative controls and model specifications, and they underscore the pivotal role of political expectations in shaping the sign and magnitude of fiscal spending multipliers.

JEL classification: E62; E32; C32; D72; H50.

Keywords: Spending multipliers; State dependence; Political cycle; Partisan thoery; Local projections.

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1. Introduction

The onset of the COVID-19 pandemic, followed by the outbreak of the war in Ukraine and more recent geopolitical tensions, has reignited debate about the effectiveness of public expenditure as a tool for stimulating economic activity. In response to the pandemic-induced downturn, governments in Europe, across the Atlantic, and in much of the rest of the world adopted measures to foster recovery, with public spending playing a central role. Government spending multipliers quantify the ratio between the percentage change in aggregate income (GDP) that follows an exogenous increase in public expenditure quantified in 1% of GDP. In the context of current geopolitical tensions, the debate remains unsettled: Europe plans to spend roughly 800 billion euros over the coming years, and—regardless of whether economic stimulus is the primary objective—assessing the macroeconomic impact of such outlays is of paramount importance. Over the past decade and a half, particularly since the 2007–2008 financial crisis, the literature on fiscal multipliers has evolved and expanded substantially. [1]

In recent years, the debate has shifted from the existence and average magnitude of fiscal multipliers to their state dependence. It has become increasingly clear that no single, time-invariant multiplier exists; rather, it varies across time and space with external conditions such as the exchange-rate regime, the stance of monetary policy, the onset of recession, the level of unemployment, and many other factors. Within the state-dependent literature, Auerbach and Gorodnichenko (2012)—focusing on the United States—show that multipliers are larger and positive during recessions and turn negative in expansions. Christiano et al. (2011) suggest that the multiplier can be extraordinary large when the zero lower bound constrains the nominal policy rate. Bernardini and Peersman (2018) find higher multipliers when private debt stands above its trend, whereas Corsetti et al. (2012) report lower multipliers when public debt is elevated. See Morelli (2025a) for a comprehensive survey.

In this paper, I approach the question of government-spending multipliers from a different angle—namely, a political-economy perspective. The United States, with its regular alternation between Republican and Democratic administrations, offers a particularly suitable setting: the two parties plausibly prioritize different social objectives and, correspondingly, display different objective functions. Historically, Democrats have placed greater weight on employment and inequality, whereas Republicans have emphasized inflation and public debt control (Hibbs (1977)).

This thesis is grounded in the *partisan theory of the political cycle*. Seminal work by Alesina and Tabellini (1990) argues that incumbents can deploy public debt strategically to constrain the policy choices of future opponents. Because left- and right-wing governments prioritize different objectives—and because economic agents may internalize those differences—the effects of fiscal policy should vary with the government's ideology and with whether the incumbent expects to win re-election.

The first task consists of assessing whether spending multipliers differ systematically under Republican versus Democratic administrations. Several mechanisms could account for such differences

[1] The debate on government spending multipliers has intensified considerably, not least because of the aftermath of the financial crisis, which pushed policy rates to the zero lower bound and thereby made fiscal policy the preferred tool for supporting economic activity.

like the timing, and persistence. Expectations also play a central role: if households and firms anticipate future tax increases, private consumption and investment may be crowded out, lowering income and dampening the fiscal multiplier.

Second, the political cycle may affect multipliers for a different reason: the distinction between a first and a second term—whether of the same president or the same party—can materially shape expectations. If agents attach a high probability to the incumbent's reelection, they also anticipate that the same officeholder (or party) will be held accountable for the fiscal policies enacted today, including any increase in public debt or the implied future tax burden. By contrast, if reelection is perceived as unlikely, agents understand that the incumbent may never bear the consequences of current choices. A successor—especially from the opposing party—may be reluctant to adopt unpopular measures, such as tax hikes, to service inherited debt. In extremis, public debt can become a strategic instrument: an incumbent who does not expect to be reelected may rationally leave a more difficult fiscal position to the next administration (Alesina and Tabellini (1990)). If such a condition holds, the fiscal multipliers of government spending could differ markedly between a first and a second term. This political-related mechanism is particularly salient in the United States. To begin with, a large majority of administrations have secured reelection; thus, when a Democratic or Republican administration takes office, it is reasonable to expect at least one additional term. While a party can remain in power for more than two consecutive terms—as in the 1980s, when two Reagan administrations were followed by the Bush administration, all Republican—the same does not hold for individual presidents. The U.S. Constitution's Twenty-Second Amendment imposes a hard cap of two presidential terms, since 1947. Although a party may win a third consecutive term after an incumbent's second, historical experience suggests this is uncommon. For these reasons, we regard the first–versus–second-term distinction as a meaningful proxy for heterogeneity in agents' politico-economic expectations.

In the spirit of Bernardini and Peersman (2018); Alloza (2017); Ramey (2011); and Auerbach and Gorodnichenko (2012), I estimate government-spending multipliers using Jorda's local-projection by defining the relevant *state* in two complementary ways. First, by comparing multipliers between the first and second terms. Second, by comparing multipliers under Democratic versus Republican administrations. Macroeconomic data are drawn from the FRED database and span 1954Q1–2025Q3. State identification requires no special techniques, since both the term (first/second) and party affiliation of each administration are directly observable. Government spending shocks are identified in the spirit of Blanchard and Perotti (2002) and following the defence news spending by Ramey (2011).

The multiplier estimates strongly corroborate the priors. With respect to the distinction between the first and second terms, within the baseline model, spending multipliers are significantly larger when outlays occur during a second term, regardless of the party. In the second term, the cumulative multiplier at a 12-quarter horizon is approximately 1 and statistically different from zero at the 99.9% confidence level. By contrast, during the first terms, the cumulative multiplier is negative, around -0.9 after 12 quarters. This pattern reflects both consumption and investment dynamics: in the second term, there is no crowding out of consumption, and at most, a modest (statistically insignificant)

crowding out of investment, whereas in the first term, both consumption and investment contract markedly. I also uncover a salient partisan asymmetry. Under Democratic administrations the 12-quarter cumulative multiplier is positive but below unity (0.52), while under Republican administrations it is negative (−0.74). Taken together, these findings offer strong support for the baseline hypothesis and provide an additional lens for evaluating public policies. The results are robust across a wide range of specifications, including controls for the zero lower bound on the nominal policy rate, different definitions of the business cycle (recession versus expansion), the inclusion of linear and nonlinear trends and the monetary policy stance. The models are mutually consistent: while the impulse responses and multiplier estimates occasionally differ by only a few hundredths, the signs are uniformly aligned, underscoring the coherence and reliability of the results. The estimation of multipliers through defence news shock identification yields results that are consistent with the Democrat/Republican classification and confirms the positive effect for second terms, whereas for first terms the effect is either not statistically significant or assumes implausible values.

The findings not only offer a novel interpretation of fiscal-policy effectiveness—anchoring it in phenomena typical of political economy—but also yield implications of practical relevance for policy design. Regarding the distinction between first and second terms, negative multipliers in first terms should not necessarily be viewed as bad news. Viewed differently, and assuming the symmetry of the multipliers, reductions in public expenditure during a first term, may exert positive effects on the economy, or at least avoid adverse effects on consumption and income. The underlying political mechanism is that, following first-term consolidation, agents may anticipate a looser fiscal stance in the subsequent term, thereby creating space for future stimulus consistent with the incumbent administration's platform, conditional on a high probability of reelection. Fiscal consolidation can thus be expansionary, in line with Giavazzi and Pagano (1990). Conversely, a positive multiplier in the second term suggests a complementary policy lesson: multi-year, multi-term planning of public saving and spending can be a valuable instrument for policymakers. Moreover, effective fiscal interventions in the second term can reduce the need for corrective measures in later terms, reinforcing their own efficacy. While fiscal stimulus should be deployed primarily when conditions warrant it—regardless of term—incorporating this evidence into medium-term economic planning may be beneficial.

Regarding the differential multipliers under Democratic and Republican administrations, several implications follow. Partisan theory helps frame these results: if each party pursues its characteristic objectives—Democrats prioritizing employment and inequality, Republicans emphasizing inflation control and public debt—then a government is most effective when it implements policies voters expect from it. In this sense, Democrats can stimulate activity by increasing public spending, whereas Republicans may achieve comparable outcomes by lowering debt or cutting taxes through spending restraint. I refer to this as a *partisan approach to fiscal multipliers*.

The paper is organized as follows. Section (2) reviews the literature; Section (3) outlines the methodology and shock-identification strategy; section (4) presents the results; Section (5) reports the robustness checks; Section (6) entails a Ramaey defence news shock, and Section (7) concludes.

2. Related Literature

This study is linked to two broad strands of literature: first, the work on fiscal multipliers—especially the one on state-dependent fiscal multipliers—and second, the political-economy contributions about the *partisan theory* of government spending.

The foundational debate on fiscal multipliers runs from the Neoclassical tradition—exemplified by Baxter and King (1993)—through New Keynesian contributions that introduce nominal frictions in prices, wages, and beyond, to heterogeneous-agent frameworks and models with bounded rationality. A central theme of the Neoclassical view, which persists in many modern contributions, is the crowding out of private consumption following a fiscal shock. In rational-agent environments—whether monetarist or New Keynesian—consumption typically falls: in Neoclassical models because agents anticipate higher future taxes, and in New Keynesian models because monetary policy reacts to the inflationary effects of fiscal expansion. To obtain consistently positive consumption responses, and thus theoretical multipliers greater than one, one must move away from the representative-agent/PIH benchmark toward excess-sensitivity (liquidity-constraint) views (Galí et al. (2007), Bilbiie (2008), Campbell and Mankiw (1989)). In such settings, a fraction of households consumes current disposable income, reviving the Keynesian multiplier. More refined variants of these models yield similar predictions, as does a substantial body of empirical evidence (Blanchard and Perotti (2002), Uhlig (2005), Mountford and Uhlig (2009)). The core debate on fiscal multipliers underpins the motivation for this paper. On the one hand, it allows for agents who depart from the representative-agent benchmark; on the other, it highlights the crucial role of expectations in producing larger or smaller multipliers.

Over the past fifteen years, a growing literature has examined state-dependent fiscal multipliers. It is now well understood that many conditions shape the effectiveness of fiscal policy across time and space. Among the most influential contributions are those of Auerbach and Gorodnichenko (2012), who—using a smooth-transition VAR and a business-cycle indicator based on deviations of GDP from its moving average—show that multipliers tend to be larger and positive in recessions and negative in expansions. The mechanisms proposed in theory are varied yet coherent: convexity of aggregate supply (e.g., downward wage rigidity) (Shen and Yang (2018), Berge et al. (2021)), tighter borrowing constraints in downturns and limited asset market participation (Bilbiie et al. (2008), Morelli (2025b)), higher unemployment with incomplete markets (Michaillat (2014), Hagedorn et al. (2019)) and more. Beyond the cycle, additional factors also matter—the zero lower bound on the nominal interest rate, the monetary-policy rule, the exchange-rate regime, the economy's production structure, the composition of spending, and the levels of public and private debt, among others.[2] This paper aims to bring a

[2]On the monetary side, a binding zero lower bound (ZLB) markedly amplifies fiscal transmission: by lifting inflation while the policy rate is stuck, spending reduces real rates and crowds in private demand; Christiano et al. (2011)(2011) quantify peak multipliers around 2–3 when stimulus arrives while the ZLB binds, whereas Ramey and Zubairy (2018)find more modest effects. In regime-switching environments, the largest multipliers arise when fiscal policy is *active* (deficit-financed) and monetary policy *passive*/accommodative, as shown by Davig and Leeper (2011) (2011) and echoed by Bianchi and Melosi (2017). Exchange-rate arrangements matter similarly: across OECD and multi-country samples, multipliers are positive and significant under fixed pegs but often indistinguishable from zero under flexible regimes (Corsetti et al.

political lens to the study of fiscal multipliers, on the premise that the political cycle, in its various forms, can affect both the magnitude and the sign of those multipliers.

Regarding the second strand of literature, it provides the theoretical backbone that both justifies and helps interpret our results. Indeed, this paper positions itself at the intersection of the literature on state-dependent multipliers and the work on Partisan theory and political-economy approaches to fiscal policy. A related contribution is due to Alesina and Tabellini (1990). The authors show that when governments alternate and hold divergent fiscal preferences, public debt may be strategically over-accumulated relative to the social optimum. In such settings, incumbents who anticipate turnover use debt as a political instrument: by bequeathing a higher debt burden to their successors, they complicate the latter's policy choices. Applied to our context—and if this mechanism is internalized by economic agents—expectations adjust so that an incumbent who does not expect reelection finds it optimal to finance public spending with debt rather than taxes. One implication of the model is that governments are typically not held accountable for their predecessors' economic policies, including increases in public debt. The way in which government spending is financed can directly affect its effectiveness in a setting where Ricardian equivalence does not hold—for example, when the economy features borrowing-constrained agents. If, in addition, reelection prospects shape the chosen financing channel and the future debt-consolidation policy, when such a policy is expected, then the fiscal shock itself may be influenced by those political expectations and by the fiscal rule in place.

The partisan theory of fiscal policy—articulated, inter alia, by Franzese (2002) and Hibbs (1977) —builds rational and adaptive expectations into the utility functions of households and governments, thereby generating a substantive incentive to finance expenditure with debt. Consistently, the framework assigns different objective (utility) functions to different parties. In much of this literature (see Hibbs (1977)), left-leaning governments place greater weight on lowering unemployment through expansionary policies and on reducing inequality, and are willing to tolerate somewhat higher inflation to achieve lower joblessness. By contrast, right-leaning governments prioritize low inflation, low taxes, and restrained public debt, and are therefore less inclined toward expansionary policy. The partisan theory further maintains that this preference heterogeneity mirrors voter preferences—social groups with distinct ideologies and, often, sharply divergent material interests. [3] This framework jointly explains why governments may pursue markedly different fiscal policies and objectives—thereby

(2012), 2012; Ilzetzki et al. (2013)). Importantly, expansions frequently reflect internal monetary accommodation and higher private consumption rather than export booms, with the real exchange rate sometimes depreciating (Born et al. (2013), 2013; Ravn et al. (2012)). Turning to production structure, multipliers are systematically larger in economies tilted toward non-tradables and smaller where tradables dominate; rising openness introduces an inverted-U relation via import leakages (Cuaresma and Glocker (2023), 2023), consistent with sectoral evidence in Bénétrix and Lane (2010) and Monacelli and Perotti (2010). Finally, composition matters: public *investment* tends to deliver larger and more persistent effects than government consumption—via productivity gains that temper price pressures and limit interest-rate responses (Baxter and King (1993) Aschauer et al. (1989); Bom and Ligthart (2014); Leeper et al. (2013))—with Euro-area evidence showing near-unity impact multipliers that rise above one over time (Deleidi and Mazzucato (2019)).

[3]Pattersson-Lidbom (2001) provides evidence for the Swedish economy consistent with partisan theory: when governments expect not to be reelected, they disproportionately increase public debt, thereby burdening their successors, as in Alesina and Tabellini (1990). The authors also show that this effect is more pronounced for right-leaning governments, which in turn reduces the likelihood that left-leaning successors will pursue expansionary policies.

shaping households' (i.e., voters') expectations—and why incumbents who do not expect reelection tend to raise public debt to constrain their successors. Carlino et al. (2023) show that, in the United States, the size of fiscal multipliers depends on the partisan composition of state governors: multipliers are larger when most governors are Democrats. They interpret this partisan gap as stemming from differences in spending behavior, with Democratic governors displaying a stronger propensity to spend than their Republican counterparts.

This study departs from the existing literature in several respects. First, I examine the partisan theory of government spending multipliers from an aggregate, federal-level perspective, focusing solely on the observable characteristics of the sitting administration. These features are directly measurable and easier to interpret than, for example, indicators of partisan conflict or the partisan composition of state governors, which are typically more cumbersome to analyze. Second, beyond documenting aggregate evidence on differences between Democratic and Republican administrations, I introduce a further, novel dimension that has not been explored so far: the distinction between first and second presidential terms. Third, I conduct a set of sensitivity and robustness exercises that add to the existing literature by strengthening the case for a partisan view of fiscal policy effectiveness, albeit with respect to the specific transmission of fiscal policy.

3. Methodology

To implement the state-dependent analysis of government-spending multipliers, I adopt local-projection method by Jordà (2005). In recent years this approach has become a widely used tool for estimating impulse-response functions (IRFs) to aggregate shocks, with applications ranging from monetary policy to financial markets. It is extensively employed in the fiscal-multiplier literature (e.g., Ramey (2011); Alloza (2017); Bernardini and Peersman (2018)) because it offers substantial flexibility in the choice of lags, explanatory variables, and controls. Local projections do not impose a predetermined functional form on IRFs and are, in several respects, more flexible than an SVAR approach. They also accommodate multiple identification strategies and—while precision can deteriorate at long horizons—remain highly competitive. For my purposes, they are especially well suited, as they permit a clear and tractable treatment of state dependence.

To study how government spending, output, private consumption, and investment evolve after a fiscal disturbance—and to assess whether the fiscal impulse generates private consumption crowding-in or crowding-out—I estimate a state-dependent model. For each horizon $h = 0, \ldots, H$, the specification is

$$\begin{aligned} z_{t+h} = I_{t-1}\Big[\alpha^{z}_{A,h} \;+\; \boldsymbol{\psi}^{z}_{A,h}(L)\,\mathbf{x}_{t-1} \;+\; \beta^{z}_{A,h}\,\text{shock}_t \Big] \\ +\; \big(1 - I_{t-1}\big)\Big[\alpha^{z}_{B,h} \;+\; \boldsymbol{\psi}^{z}_{B,h}(L)\,\mathbf{x}_{t-1} \;+\; \beta^{z}_{B,h}\,\text{shock}_t \Big] \;+\; \varepsilon_{t+h}\,, \end{aligned} \tag{1}$$

where z_{t+h} denotes the variable of interest observed h periods after the shock (e.g., GDP, government spending, private consumption, or investment). The operator L is the lag operator, and $\mathbf{x}_{t-1}$ is a vector

of *predetermined* controls (such as lags of the dependent variable, additional macroeconomic indicators, or calendar dummies), all measured at $t-1$ to preserve predetermination. The indicator I_{t-1} is a predetermined dummy that takes value 1 if the economy is in state A in the period just before the fiscal disturbance and 0 otherwise (state B). States $\{A, B\}$ may represent, for example, first versus second presidential terms or Democratic versus Republican administrations. The constants $\alpha^z_{S,h}$ and the lag polynomials $\boldsymbol{\psi}^z_{S,h}(L)$ ($S \in \{A, B\}$) allow intercepts and dynamics to differ by state and horizon. The variable shock_t is the identified government-spending shock at time t, and $\beta^z_{S,h}$ is the horizon-h impulse coefficient mapping that shock into z when the economy is in state S. The error term ε_{t+h} has zero mean. Estimation proceeds horizon by horizon, so the sequence $\{\beta^z_{S,h}\}_{h=0}^{H}$ traces the impulse response function (IRF) of z in state S.

Beyond the horizon-by-horizon specification in (1), I complement the analysis with *state-dependent cumulative multipliers*. The goal is to relate the cumulative response of a variable of interest to the cumulative path of government purchases induced by an identified fiscal disturbance. Unlike impact or peak multipliers—which can be read directly from the impulse responses—cumulative multipliers are well suited to summarizing short- and medium-run effects and to comparing outcomes across states and alternative shock definitions (cf. Ramey and Zubairy (2018)).

To construct these objects, define the cumulative sums

$$Z_t(h) \equiv \sum_{l=0}^{h} z_{t+l} \qquad \text{and} \qquad G_t(h) \equiv \sum_{l=0}^{h} g_{t+l},$$

and estimate, for each horizon $h = 0, \ldots, H$, the following LP–IV regression:

$$\begin{aligned} Z_t(h) = I_{t-1}\Big[\alpha^{m,z}_{A,h} \;+\; \boldsymbol{\psi}^{m,z}_{A,h}(L)\,\mathbf{x}_{t-1} \;+\; \beta^{m,z}_{A,h}\, G_t(h) \Big] \\ + \big(1 - I_{t-1}\big)\Big[\alpha^{m,z}_{B,h} \;+\; \boldsymbol{\psi}^{m,z}_{B,h}(L)\,\mathbf{x}_{t-1} \;+\; \beta^{m,z}_{B,h}\, G_t(h) \Big] \;+\; \varepsilon_{t+h}. \end{aligned} \tag{2}$$

The notation mirrors (1). Here, $Z_t(h)$ is the cumulative path of the outcome z from t to $t+h$, while $G_t(h)$ is the cumulative path of real government purchases over the same horizon. The state indicator I_{t-1} is dated $t-1$ to avoid simultaneity between the impact of the shock and the classification of the state at time t.[4] The vectors $\boldsymbol{\psi}^{m,z}_{S,h}(L)\mathbf{x}_{t-1}$ allow for flexible lag dynamics of predetermined controls, including, inter alia, lagged outcomes and spending, monetary-policy indicators, the average marginal tax rate, and public-debt-to-GDP ratio. Following Barro and Redlick (2011), controls are taken in first differences; dollar-denominated variables are scaled by lagged GDP. Our conclusions are unchanged if variables are used in levels. In specifications that rely on narrative defense-news shocks, I include their lags to mitigate serial correlation; this addition is not required under *Blanchard–Perotti* identification because lagged government spending already enters the control set. Equation (2) is estimated by instrumental variables, treating the interacted cumulative spending terms as endogenous. Specifically,

[4] Using the lagged state prevents the current shock from mechanically altering the state classification on impact.

$I_{t-1}\, G_t(h)$ is instrumented with I_{t-1} shock$_t$, and $(1 - I_{t-1})\, G_t(h)$ with $(1 - I_{t-1})$ shock$_t$, where shock$_t$ denotes the identified government-spending innovation at time t. The coefficients $\beta^{m,z}_{A,h}$ and $\beta^{m,z}_{B,h}$ thus deliver, by construction, the state-dependent cumulative multipliers for variable z at horizon h. To ensure comparability across horizons, I keep the estimation sample fixed at the maximum horizon H; standard errors are heteroskedasticity- and autocorrelation-robust.[5]

In all cases, z may denote output, government spending, private consumption, or investment. Consistent with Perotti et al. (2007), our consumption measure refers to personal consumption expenditures on nondurables and services, and investment corresponds to private fixed investment; durable goods and inventory changes are excluded.[6]

Finally, for comparison with the IRF-based approach in equation (2), note that the ratio of cumulative IRF coefficients,

$$\mathcal{M}_S(H) = \frac{\sum_{h=0}^{H} \beta^{Y}_{S,h}}{\sum_{h=0}^{H} \beta^{G}_{S,h}},$$

is numerically close to the LP–IV estimate $\beta^{m,Y}_{S,H}$ under the usual normalization of $G_t(h)$; the LP–IV formulation in equation (2) has the advantage of delivering the multiplier directly while preserving a clean comparison across states and shock definitions.

3.1. Data

The dataset is a quarterly panel built from FRED series and aggregate U.S. macroeconomic data released by the Bureau of Economic Analysis (BEA). It includes the main real aggregates—real GDP (`RealGDP`), private consumption (`Consumption`/PCE), investment (`Investments`), and total government spending with its consumption and investment components (`Government Spending`, `Government Consumption`, `Government Investment`). We also load nominal/policy variables such as inflation (from BEA deflators or CPI in FRED), the federal funds rate, average taxation, and the debt-to-GDP ratio. Dates are first normalized to quarter starts (`dateshift(...,'quarter')`) so that all series share a common quarterly calendar.

Let Y_t be real GDP and X_t a level variable (e.g. Real Private Consumption C_t). I transform

$$x_t^{\mathrm{BP}} = \frac{X_t - X_{t-1}}{Y_{t-1}},$$

i.e. the quarter-on-quarter change in the variable is scaled by lagged GDP. This expresses flows in *percent-of-GDP points*, which is the unit used throughout the regressions.

The spending shock that acts as the impulse in the local projections is constructed in the same way,

[5] Local projections can display noisier behavior at long horizons owing to efficiency losses; see Ramey and Zubairy (2018) for a detailed assessment.

[6] These measurement choices align with standard practice in the fiscal-multiplier literature; see Perotti et al. (2007) and the Data Appendix for exact series definitions.

but using the chosen government aggregate:

$$\varepsilon_t \;=\; \frac{G_t - G_{t-1}}{Y_{t-1}},$$

For variables that are already expressed as rates or percentages in the file (inflation, policy rate, average taxation, debt-to-GDP ratio), I apply the simple first difference, `dd_pp`:

$$\Delta Z_t \;=\; Z_t - Z_{t-1}.$$

To control for the business cycle, in the baseline model, I build a backward-looking moving average of log GDP over k quarters and then checks whether actual log GDP is below that average:

$$\bar{y}_t = \frac{1}{k}\sum_{j=0}^{k-1} \log Y_{t-j}, \qquad \text{gap}_t = \log Y_t - \bar{y}_t, \qquad BC_t = \mathbf{1}\{\text{gap}_t < 0\}.$$

This dummy BC_t is then included among the controls with lags.

All transformed controls Z_t are lagged up to L quarters, and—because the model is two-state—each lagged control is interacted with the state indicator (DEM/REP or First/Second). This is exactly what `make_lags_mat(...)` and the subsequent multiplication by the state do in the code, ensuring that the dynamics of controls can differ across political states.

For identification we follow the standard "news-shock" approach in the Ramey defense/news literature, using the series as provided in the Ramey database and keeping its original dating conventions. In practice this means that fiscal news are treated as exogenous innovations to expected government spending, constructed from narrative sources and already aligned to the quarter in which the information becomes available to agents. Because the series is pre-identified outside our model—exactly as in the Ramey dataset—we simply import it, merge it to our quarterly macro data, and then use it as the shock in the local-projection equations, without re-estimating or statistically extracting the shock inside the LP system. This keeps our identification as close as possible to the original Ramey narrative identification.

3.2. Identification

Since the seminal contribution of Blanchard and Perotti (2002), a large literature has identified government spending shocks by exploiting timing restrictions. The core assumption is that appropriations, procurement decisions, and execution lags make it unlikely that government *purchases* respond within the same quarter to contemporaneous movements in the economy; moreover, unlike taxes and transfers, purchases are not governed by automatic stabilizers. A convenient way to formalize this idea is to posit a backward-looking policy rule for real government purchases,

$$g_t \;=\; \psi(L)\,\mathbf{x}_{t-1} \;+\; \nu_t, \tag{3}$$

where g_t denotes government purchases of goods and services, $\psi(L)$ is a lag polynomial in predetermined controls $\mathbf{x}_{t-1}$, and ν_t is an innovation orthogonal to the information set at $t-1$. We refer to ν_t as the Blanchard–Perotti (BP) spending shock.

This timing restriction nests naturally within the local-projection framework used above. When the control set in the cumulative LP–IV specification in equation (2) contains the lagged variables that enter the policy rule in equation (3), BP identification is achieved by constructing the structural innovation as the policy-rule residual,

$$\text{shock}_t^{BP} \equiv \widehat{\nu}_t = g_t - \widehat{\psi}(L)\,\mathbf{x}_{t-1}, \tag{4}$$

and then using the interacted instruments $I_{t-1}\,\text{shock}_t^{BP}$ and $(1-I_{t-1})\,\text{shock}_t^{BP}$ in the LP–IV regression in equation (2). In words, once we partial out the systematic, backward-looking component of fiscal behavior, the remaining surprise in purchases serves as the exogenous fiscal impulse. The resulting coefficients $\beta_{A,h}^{m,z}$ and $\beta_{B,h}^{m,z}$ continue to be interpretable as state-dependent *cumulative* multipliers for outcome z at horizon h, while preserving direct comparability across states and shock definitions.[7]

In the case of Ramey-style identification, the series already represents the shock, and to avoid serial correlation the model includes, in addition to government spending controls, lagged controls of the news variable as well.

3.3. Definition of the States of the Political Cycle

The state-dependent analysis classifies regimes by the political cycle. I employ two complementary partitions. First, I distinguish between first and second political terms. This distinction matters because, under partisan political-economy theory, incumbents who do not expect reelection face different objective functions and may find it optimal to finance additional government purchases with debt rather than taxes (Alesina and Tabellini (1990)). On the household side, if voters anticipate a change in administration, they also expect the successor to be less inclined to assume responsibility for the predecessor's policies—particularly for unpopular measures such as spending cuts or tax increases. The resulting pattern is a rise in public debt and, plausibly, in the debt-to-GDP ratio, which is consistent with observed data.

The United States provides a particularly suitable setting for this analysis. Three consecutive administrations from the same party are rare; a notable exception is the sequence from Ronald Reagan to George H. W. Bush, which produced a third consecutive Republican administration. This rarity has a clear institutional source: the Twenty-Second Amendment to the U.S. Constitution prohibits any

[7] Using a one-period-lagged state indicator I_{t-1} avoids simultaneity between the shock at t and the state classification. Local projections may become noisier at long horizons due to efficiency losses; see Ramey and Zubairy (2018) for discussion. Our control set includes standard fiscal and macro variables (e.g., lagged spending and output, monetary-policy indicators, average marginal tax rate, and debt ratios), transformed as described above; results are robust to working in levels rather than first differences and, when narrative defense-news shocks are used, to adding their lags. Because lagged government spending already enters the controls, including lagged defense-news shocks is not required under BP identification.

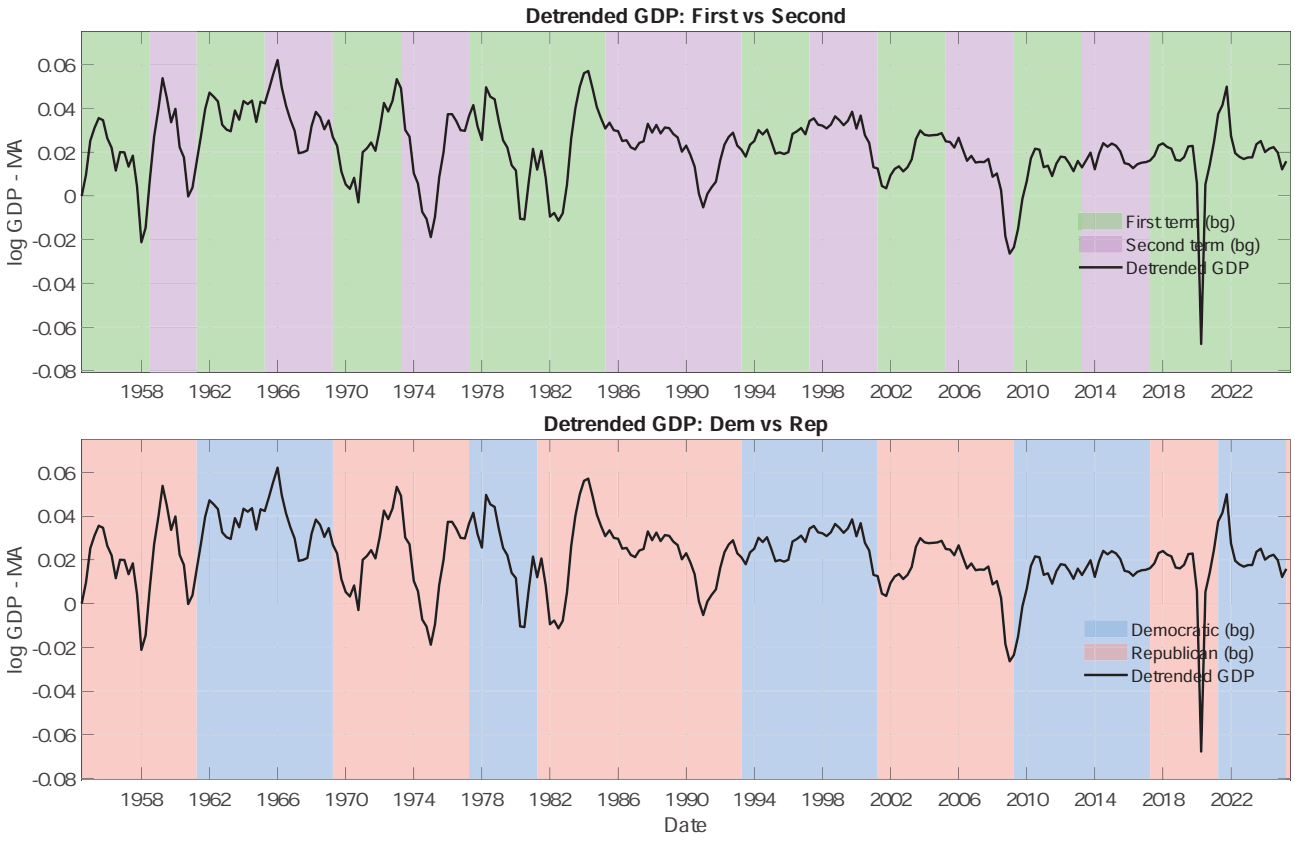

Figure 1: Time series of log Y (1954Q3-2025Q1), detrended using a backward-looking 7-period moving average. Shading: top panel—green for first terms and purple for second terms; bottom panel—blue for Democratic administrations and red for Republican administrations.

individual from serving more than two presidential terms, since 1947. While this does not mechanically imply a change in party control, in practice it often does. The term limit thus plays a central role in fostering alternation between Democrats and Republicans, with most administrations serving one term, or at most two.

Since 1789, the United States has seen 60 administrations, of which 66.7% were first terms, 30% second terms, and 3.3% third consecutive terms. The share of second terms rises slightly in our sample window, 1954–2025. In Figure (1), the top panel plots the time series of log GDP detrended with a backward moving average (7 periods), with the background shading highlighting periods of first terms versus second (or higher) terms.

From Dwight Eisenhower through Donald Trump, two-term presidencies are common, with the well-known exceptions of Kennedy, Ford, Carter, and Biden, who served only one term. Two special cases are worth noting: George H. W. Bush, who followed two Reagan administrations and therefore represents a first presidential term but a third consecutive Republican term; and Donald Trump, who is currently serving a nonconsecutive second term. In this study, I classify terms in partisan rather than individual terms—that is, at the party level rather than the level of the officeholder. The two concepts are related but not perfectly aligned.

Concerning the second political-cycle classification, I differentiate the model by party—Democratic

versus Republican. The rationale again follows partisan theory: if the two parties pursue distinct objectives and preferences, and agents are aware of this, the macroeconomic impact of government spending is likely to differ. The literature typically associates Democrats with a stronger emphasis on employment and income stabilization—especially during recessions—whereas Republicans are portrayed as prioritizing inflation control and public debt restraint. This asymmetry can shape agents' expectations about budget rules and financing strategies (taxation versus debt), potentially leading to heterogeneous fiscal multipliers.

The United States is an especially apt setting for this analysis because of its two-party structure. By contrast, party systems in many other advanced economies are fragmented and multifaceted. This does not imply ideological uniformity within each American party; rather, it means that the electorate largely coalesces around one of the two. For example, Donald Trump presented himself as an outsider rather than a career politician, yet he won the Republican primaries to run for president. Thus, irrespective of how conservative, unconventional, or heterodox his positions may be, the electoral base that nominated him is Republican. This structural bipolarism allows for a clear, sharp comparison of the effectiveness of policies implemented by the right versus those implemented by the left.

Since the nation's founding, 40.4% of administrations have been Republican, 34.0% Democratic, and 25.5% Federalist, Democratic-Republican, or Whig. From 1954 onward, 55.4% have been Republican and 44.0% Democratic. The distribution is therefore fairly balanced and supports a robust analysis of multipliers across political regimes.

4. Results

In this section we present baseline results for both classifications: first versus second presidential term, and Democratic versus Republican administrations. The impulse response functions (IRFs), together with income, consumption, and investment multipliers, are reported in Figures (2) and (3); the corresponding estimates appear in Table (1). The upper panels of Figures (2) and (3) display pointwise IRFs, while the multipliers—constructed from cumulative IRFs—more directly address our question about the effectiveness of fiscal policy. We discuss the two political-cycle partitions in turn.

4.1. First vs second Term

Figure (2) report the responses to a government spending shock identified in the Blanchard–Perotti spirit for real GDP, real consumption, real investment, the nominal policy rate, and inflation, average marginal tax rate, and debt-to-GDP ratio. The lower panels also plot cumulative multipliers for real GDP, real consumption, and real investment. The comparison between first and second terms yields a clear pattern. Income multipliers are positive and, in cumulative terms, close to 0.45 only in second terms; by contrast, in first terms they are negative, with a 12-quarter cumulative value of about 1.32. Moreover, in second terms the cumulative GDP multiplier initially exceed 0.80, although it gradually

Table 1: Cumulative spending multipliers by term and party (1954Q3-2025Q1).

h	GDP (Y)	Consumption (C)	Investment (I)
Panel A. By presidential term			
First term			
0	0.454	-0.367	-0.026
4	0.157	-0.327**	-0.367***
8	-0.554**	-0.744***	-0.617***
12	-1.327***	-1.199***	-0.895***
Second term			
0	0.823***	0.106	-0.054
4	0.766***	0.156	-0.189**
8	0.526***	-0.012	-0.285***
12	0.454***	-0.141**	-0.296***
Panel B. By party			
Democrat (DEM)			
0	1.061***	0.184*	0.072
4	0.407***	0.039	-0.279***
8	0.218	-0.072	-0.341***
12	0.307*	0.014	-0.386***
Republican (REP)			
0	-0.037	-0.502	-0.165
4	-0.530**	-0.811***	-0.315**
8	-0.602***	-0.755***	-0.384***
12	-0.961***	-0.904***	-0.459***

Notes: Multipliers at horizons $h = 0, 4, 8, 12$ quarters. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

declines over the horizon. Private consumption exhibits a non significant crowding in only during second terms, whereas first terms feature pronounced crowding out. A similar configuration emerges for investment, where tehey decrease sharply under first terms, indicating that both components of aggregate demand contribute to the state-contingent divergence. The cumulative impulse responses are shown in the Appendix in Figure A1.

The IRFs offer further nuance. In second terms the spending shock is markedly more persistent. In addition, in second terms inflation falls on impact, as does the policy rate. A muted—or even negative—initial inflation response invites a more accommodative monetary stance, which, all else equal, pushes the spending multiplier upward. After roughly six quarters, however, the monetary response strengthens and inflation begins to rise more quickly. Moreover, while the response of debt-to-GDP does not appear to differ significantly across states, the response of taxation is fundamentally different. In first terms, the average marginal tax rate rises substantially, whereas in second terms it declines. The tax response—clearly the result of a different overall fiscal stance—helps account for the observed heterogeneity. In addition, the increase in debt-to-GDP in first terms seems to be driven more by the fall in income than by higher taxes, whereas in second terms it is instead explained by a higher deficit.

Turning to mechanisms, partisan political-economy considerations help rationalize these differences.

As discussed earlier, if voters (households) anticipate a change in government, they also infer that the incumbent is unlikely to be held accountable for the debt accumulated during the term. This, along with standard electoral incentives, encourages incumbents to finance spending with debt rather than taxes. If agents expect that the successor will not promptly raise taxes to close the inherited deficit, the perceived permanent income effectively rises. Related contributions suggest that such debt dynamics can be consistent with intertemporal solvency—i.e., need not violate transversality—under conditions that admit a "*fiscal bubble*, which relaxes the relevance of the long-run budget balance. Expectations thus play a central role in the transmission mechanism and help explain why multipliers differ across the two states. The tax responses help in shaping both short term dynamics and agents expectations.

The theoretical implications of these findings underscore the relevance of political-cycle models and the value of incorporating mechanisms from partisan theory into frameworks for evaluating fiscal policy. Our results provide indirect support for a *partisan theory of fiscal multipliers*, highlighting the role of politics—and political as well as economic expectations—in shaping policy effectiveness.

From a policy perspective, several clear lessons emerge. First, expansionary spending appears to raise activity only when implemented in a second term; undertaking such measures in a first term may prove counterproductive. A caveat is in order: macroeconomic conditions can warrant stimulus regardless of term. Nevertheless, on average, the evidence indicates that stimulus is effective chiefly in second terms. Second, negative multipliers in first terms are not necessarily "bad news". Viewed differently, and assuming approximate symmetry between positive and negative shocks, a first-term fiscal consolidation—i.e., a reduction in public spending aimed at lowering debt or creating space for tax cuts—can be expansionary, or at least reduce debt without compressing income. Taken together, these patterns suggest a desirable sequencing: consolidation in the first term, followed by expansionary policy in the second. This perspective offers policymakers a potentially useful guide to structuring fiscal strategy around the political cycle.

4.2. Dem vs Rep

In Figure (3) and we report multipliers for spending undertaken under Democratic and Republican administrations. A clear pattern emerges: multipliers are positive when spending is implemented by Democrats and negative when implemented by Republicans. Under Republican administrations, private consumption falls immediately and investment also declines on impact; by contrast, under Democratic administrations consumption does not respond significantly, and investment turns negative only after two quarters. Examining the individual responses further, we find that under Republicans the government-spending impulse is larger and more persistent, policy rates tend to rise over the following quarters after the shock, and inflation declines in tandem with the contraction in output. In this case, there does not appear to be evidence of a different tax response, except starting eight quarters after the shock, when taxes rise in the Republican case. By contrast, there is a relevant difference in the behavior of debt-to-GDP, which increases substantially under Republicans, most likely due to the contraction in income. Cumulative responses are reported in Appendix, Figure A2.

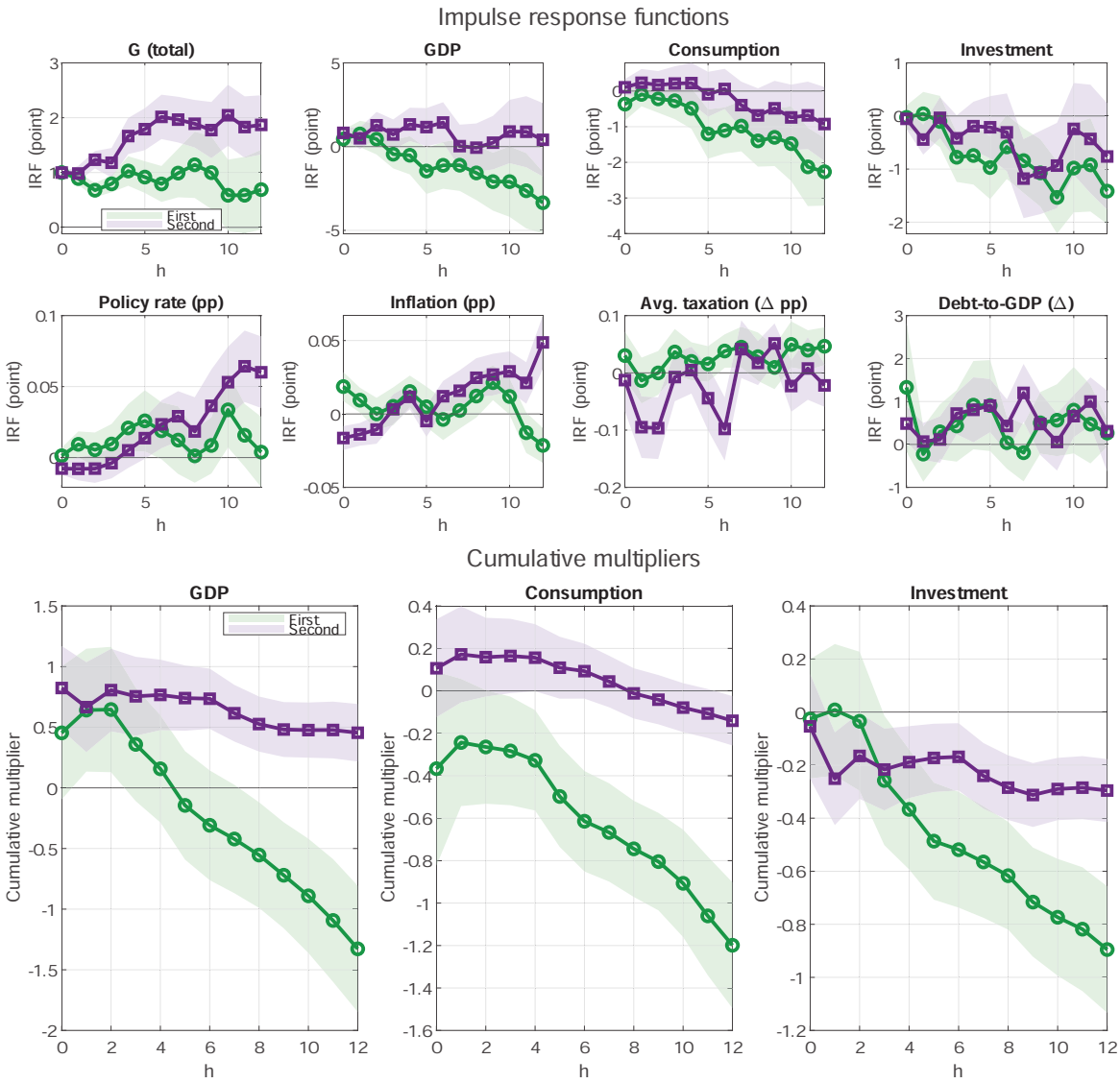

Figure 2: Impulse Response Functions and cumulative multipliers following a shock on Government Spending of 1% of GDP: green lines refer to first terms, while purple lines refer to second terms. (1954Q3-2025Q1).

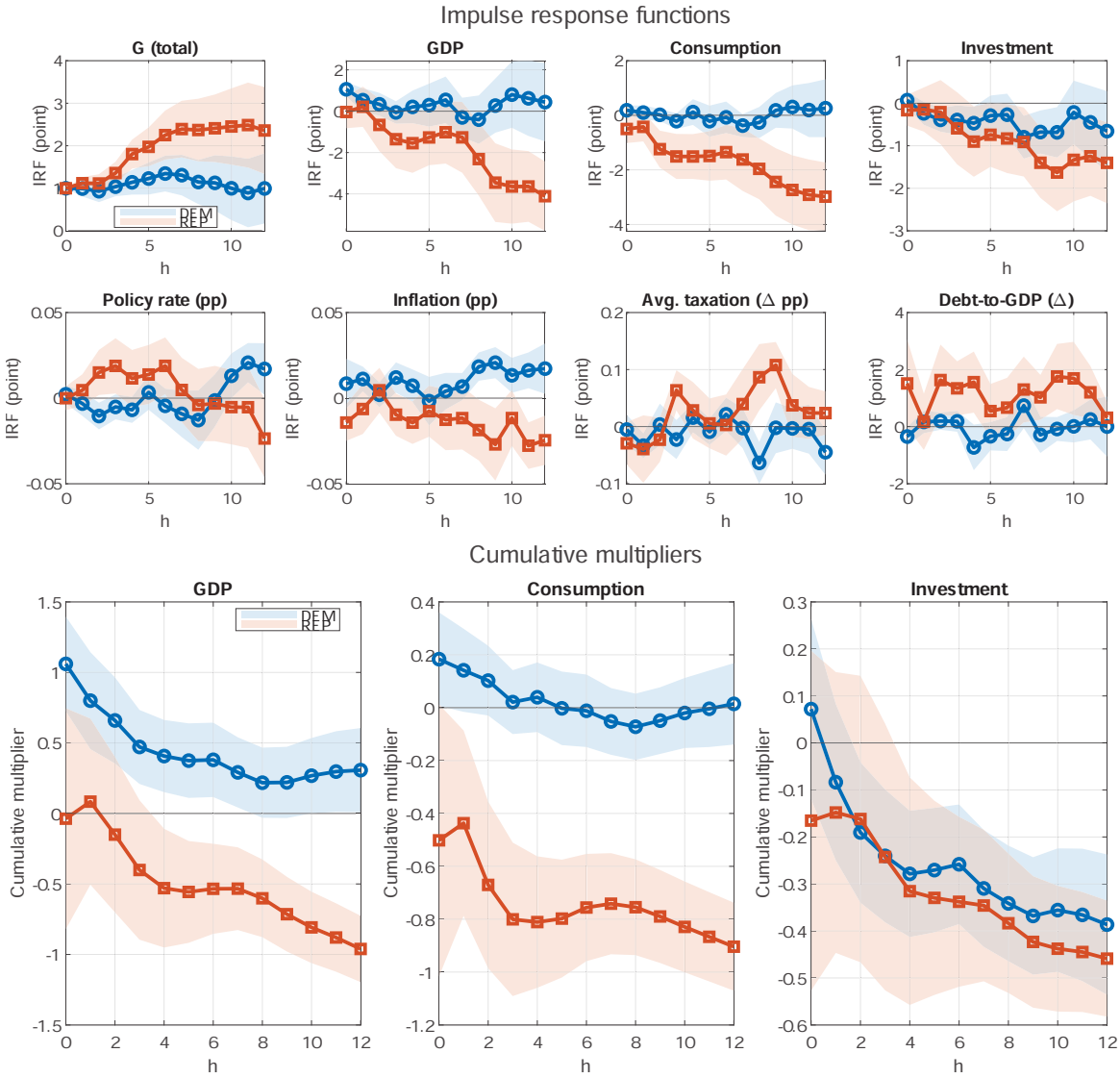

Figure 3: Impulse Response Functions and cumulative multipliers following a shock on Government Spending of 1% of GDP: red lines refer to Republican terms, while blue lines refer to Democratic terms. (1954Q3-2025Q1).

Partisan theory helps account for the divergence. In particular, it posits that left- and right-leaning parties pursue different objective functions that mirror their voters' preferences. As widely documented, Democrats place greater weight on employment, income stabilization, and inequality reduction, whereas Republicans emphasize containing inflation and public debt. This asymmetry maps naturally into the multipliers: Democrats obtain positive multipliers when spending expands, while Republicans tend to generate positive multipliers when spending is reduced. Put simply, governments are most successful when they implement the policies for which they were elected—i.e., the policies agents expect from them. Although the multipliers under Democratic administrations never exceed one and converge to a 12-quarter cumulative value below 0.5, expansionary policy nonetheless performs better under Democrats. Conversely, Republicans are more effective at curbing spending and undertaking fiscal consolidation. This "division of labor" is a novel angle in the fiscal-multiplier literature, yet it aligns well with partisan business-cycle theory.

5. Robustness

5.1. Sensitivity to Specification Choices

In the robustness analysis, I address several issues. The first concerns specification choices and the sensitivity of the results to those choices. Čapek and Crespo Cuaresma (2020) show that seemingly innocuous specification decisions—such as the selection of control variables, the inclusion of linear versus nonlinear trends, or their combination—can produce markedly different estimates of the size of government spending multipliers. They document differences in estimated multipliers of up to 0.4 points across specifications. Accordingly, our first robustness exercise examines how alternative combinations of time trends, business-cycle conditions, and the zero lower bound affect both the sign and the magnitude of fiscal multipliers.

In Table (2), I report the multipliers at horizons of 12 quarters, together with their statistical significance. As is evident, there is meaningful heterogeneity across the various combinations of control states considered, particularly for the first term. Whereas in the baseline specification examined earlier, the 12-quarter cumulative multiplier was negative, under most of the combinations analyzed here the multipliers are positive or not statistically distinguishable from zero. By contrast, for the second term the estimates are consistently and strongly positive—significant at the 99.9% level—and lie between 0.49 and 0.82. Consequently, the difference between the two sets of multipliers is invariably negative, in favor of the second term.

With respect to the partisan classification of the political cycle, we again find both continuities and departures. The continuity is that, under Democratic administrations, the multiplier is significantly positive at the 99.9% confidence level and, at the 12-quarter horizon, lies between 0.36 and 0.69. The departure is that the first-term response is no longer negative; it is simply not statistically distinguishable from zero. The difference between the two regimes is uniformly positive, confirming that multipliers are higher under Democrats, whereas they are indistinguishable from zero under Republicans. Note also that the cumulative multipliers at the 12-quarter horizon never exceed one. This pattern challenges much of the New Keynesian evidence, as well as the canonical result of Blanchard and Perotti (2002). In Appendix, Table T1, I report the results for the model with 4 lags for comparison, and I show that there are no significant differences with Table (2).

5.2. Alternative Measures of Business Cycle

The most widely used approach to estimating state-dependent government spending multipliers classifies states of the economy by business-cycle momentum, typically distinguishing expansions from recessions. A prominent early contribution is Auerbach and Gorodnichenko (2012), who use a Smooth-Transition VAR (STVAR) to estimate multipliers separately across regimes. They document that multipliers are positive—and generally larger—in recessions and smaller, often negative, in expansions. This influential finding aligns with theories of downward wage rigidity and binding borrowing constraints,

Table 2: Cumulative GDP multipliers at $h = 12$, by term and party (1954Q3-2025Q1). All specifications use $L = 8$ lags. Regime 1 and Regime 2 correspond to First and Second term in Panel A and DEM and REP administration in Panel B.

Trend	BC	ZLB	Regime 1	Regime 2	Δ
Panel A. By presidential term (First − Second)					
OFF	OFF	OFF	0.383***	0.828***	-0.445
OFF	ON	OFF	0.337**	0.704***	-0.367
OFF	OFF	ON	0.257*	0.823***	-0.566
OFF	ON	ON	0.195	0.708***	-0.513
ON	OFF	OFF	0.029	0.497***	-0.468
ON	ON	OFF	0.007	0.480***	-0.473
ON	OFF	ON	0.019	0.532***	-0.513
ON	ON	ON	-0.016	0.495***	-0.511
Panel B. By party (DEM − REP)					
OFF	OFF	OFF	0.695***	-0.060	+0.755
OFF	ON	OFF	0.664***	-0.024	+0.688
OFF	OFF	ON	0.570***	0.007	+0.563
OFF	ON	ON	0.564***	0.002	+0.562
ON	OFF	OFF	0.437***	-0.128	+0.565
ON	ON	OFF	0.449***	-0.084	+0.533
ON	OFF	ON	0.365***	0.015	+0.350
ON	ON	ON	0.379***	0.018	+0.361

Notes: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$ (two-sided z-test).

and it is consistent with heterogeneous-agent and *hand-to-mouth* frameworks in which the marginal propensity to consume, even in a dynamic setting, is higher during downturns.

That said, the empirical consensus is not complete. Beyond differences in shock identification, a key source of divergence is how the business-cycle state is measured. In particular, the evidence indicates that state-dependent multipliers are highly sensitive to the definition of the cycle. Whereas Auerbach and Gorodnichenko (2012) employ a seven-quarter centered moving average of real GDP growth as the transition variable, Alloza (2017) shows that using a fully backward-looking moving average can yield markedly different—indeed, sometimes opposite—conclusions. Business-cycle momentum is therefore a central modeling choice, and robustness analyses should explicitly consider alternative definitions of the cycle.

Figure (4) illustrates several ways to classify the business cycle. We begin by detrending log real GDP using a backward-looking moving average; shaded areas denote recessions or contractionary phases. Alloza (2017) employs this device and shows that the resulting classification can differ materially from alternative approaches. The principal advantage of a backward-looking filter is that it is reliable in real time and free of look-ahead (forward-looking) bias: while forward-looking variables may be informative ex post, they are of limited value for forecasting because, at the time the prediction is made, the relevant regressor or control variable is not yet observable. This is a major weakness of forward-looking variables in econometrics, as it undermines their practical usefulness—especially for real-time forecasting. Second, in Figure (4) the second panel from the top depicts the business cycle as

Table 3: Cumulative multipliers by term and party, alternative cycle filters (1954Q3-2025Q1).

Var	h	MA-bck	MA-ctr	HP	Hamilton	NBER
Panel A. First vs Second term (each cell: First / Second)						
Y	0	$0.324/0.779^{***}$	$0.186/0.401^{**}$	$0.617^{*}/0.778^{***}$	$0.399/1.030^{***}$	$0.377/0.676^{***}$
	4	$0.146/0.832^{***}$	$0.238/-0.034$	$1.210^{***}/0.111$	$0.167/1.517^{***}$	$0.188/0.679^{***}$
	8	$-0.557^{**}/0.612^{***}$	$-0.228/-0.020$	$0.528^{***}/-0.213$	$-0.636^{***}/1.390^{***}$	$-0.493^{**}/0.500^{***}$
	12	$-1.029^{***}/0.532^{***}$	$-0.369^{**}/0.186$	$0.380^{**}/-0.180$	$-0.983^{***}/1.321^{***}$	$-0.828^{***}/0.353^{**}$
C	0	$-0.345/0.137$	$-0.435/0.002$	$-0.213/0.152$	$-0.270/0.361^{***}$	$-0.343/0.124$
	4	$-0.313^{**}/0.226^{**}$	$-0.196/-0.201^{***}$	$0.141/-0.161$	$-0.274^{**}/0.525^{***}$	$-0.278^{*}/0.142$
	8	$-0.654^{***}/0.064$	$-0.348^{***}/-0.183^{**}$	$-0.177/-0.330^{***}$	$-0.682^{***}/0.445^{***}$	$-0.607^{***}/0.018$
	12	$-0.917^{***}/-0.053$	$-0.370^{***}/-0.105$	$-0.212^{**}/-0.365^{***}$	$-0.889^{***}/0.380^{***}$	$-0.773^{***}/-0.100$
I	0	$-0.051/-0.077$	$-0.046/-0.278^{**}$	$0.085/-0.091$	$-0.037/-0.045$	$-0.021/-0.124$
	4	$-0.285^{**}/-0.177^{**}$	$-0.245^{**}/-0.594^{***}$	$0.245^{**}/-0.468^{***}$	$-0.264^{**}/0.232^{**}$	$-0.238^{**}/-0.169$
	8	$-0.565^{***}/-0.255^{***}$	$-0.448^{***}/-0.614^{***}$	$-0.017/-0.638^{***}$	$-0.597^{***}/0.178^{*}$	$-0.484^{***}/-0.236^{**}$
	12	$-0.737^{***}/-0.264^{***}$	$-0.520^{***}/-0.487^{***}$	$-0.067/-0.568^{***}$	$-0.730^{***}/0.135^{*}$	$-0.613^{***}/-0.282^{***}$
Panel B. DEM vs REP (each cell: DEM / REP)						
Y	0	$0.940^{***}/0.102$	$0.748^{***}/0.110$	$0.981^{***}/0.457$	$0.941^{***}/0.292$	$0.953^{***}/0.201$
	4	$0.424^{***}/-0.204$	$0.228/-0.079$	$0.593^{***}/0.526^{***}$	$0.453^{***}/0.331$	$0.517^{***}/-0.115$
	8	$0.194/-0.469^{**}$	$0.079/0.050$	$0.344^{***}/0.351^{***}$	$0.176/0.182$	$0.351^{**}/-0.354^{**}$
	12	$0.170/-0.843^{***}$	$0.121/-0.018$	$0.419^{***}/0.132$	$0.138/-0.121$	$0.637^{***}/-0.663^{***}$
C	0	$0.121/-0.480^{*}$	$0.038/-0.472^{**}$	$0.103/-0.273$	$0.152/-0.375$	$0.097/-0.393$
	4	$0.025/-0.687^{***}$	$0.052/-0.523^{***}$	$0.032/-0.197^{*}$	$0.020/-0.388^{***}$	$0.009/-0.657^{***}$
	8	$-0.085/-0.726^{***}$	$-0.002/-0.324^{***}$	$-0.113^{**}/-0.161^{*}$	$-0.112/-0.297^{***}$	$-0.044/-0.681^{***}$
	12	$-0.009/-0.881^{***}$	$0.107/-0.289^{***}$	$-0.027/-0.242^{***}$	$-0.075/-0.427^{***}$	$0.141^{*}/-0.793^{***}$
I	0	$0.007/-0.097$	$-0.092/-0.093$	$0.019/0.016$	$-0.010/-0.005$	$0.000/-0.072$
	4	$-0.282^{***}/-0.221$	$-0.366^{***}/-0.195^{*}$	$-0.206^{***}/0.024$	$-0.227^{***}/0.003$	$-0.207^{**}/-0.150$
	8	$-0.328^{***}/-0.381^{***}$	$-0.351^{***}/-0.191^{***}$	$-0.260^{***}/-0.120^{*}$	$-0.289^{***}/-0.165^{*}$	$-0.235^{***}/-0.300^{***}$
	12	$-0.388^{***}/-0.481^{***}$	$-0.329^{***}/-0.203^{***}$	$-0.298^{***}/-0.183^{***}$	$-0.353^{***}/-0.260^{***}$	$-0.160^{**}/-0.379^{***}$

Notes: Each cell reports two estimates separated by "/". Panel A: First / Second presidential term. Panel B: Democrat (DEM) / Republican (REP). *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$ (two-sided z-test).

log real GDP detrended with a seven-quarter centered moving average. This specification mirrors the approach used by Auerbach and Gorodnichenko (2012), and—by construction—introduces look-ahead bias.

I then replicate the analysis using alternative measures, in order: the Hodrick–Prescott (HP) filter, the Hamilton filter, and a recession indicator based on the NBER chronology. The HP and Hamilton filters implement distinct detrending strategies: the HP filter is partially forward-looking (a two-sided filter), whereas the Hamilton approach defines the cycle as deviations from an AR-type forecast and is therefore entirely backward-looking. Finally, we consider a "technical recession" proxy—operationalized as a dummy equal to one when real GDP contracts for at least two consecutive quarters—in the spirit of the NBER dating of recessions.

The results, reported in Table (3), confirm a heterogeneous pattern in multipliers across political-status classifications, albeit with important caveats. With respect to the first- versus second-term

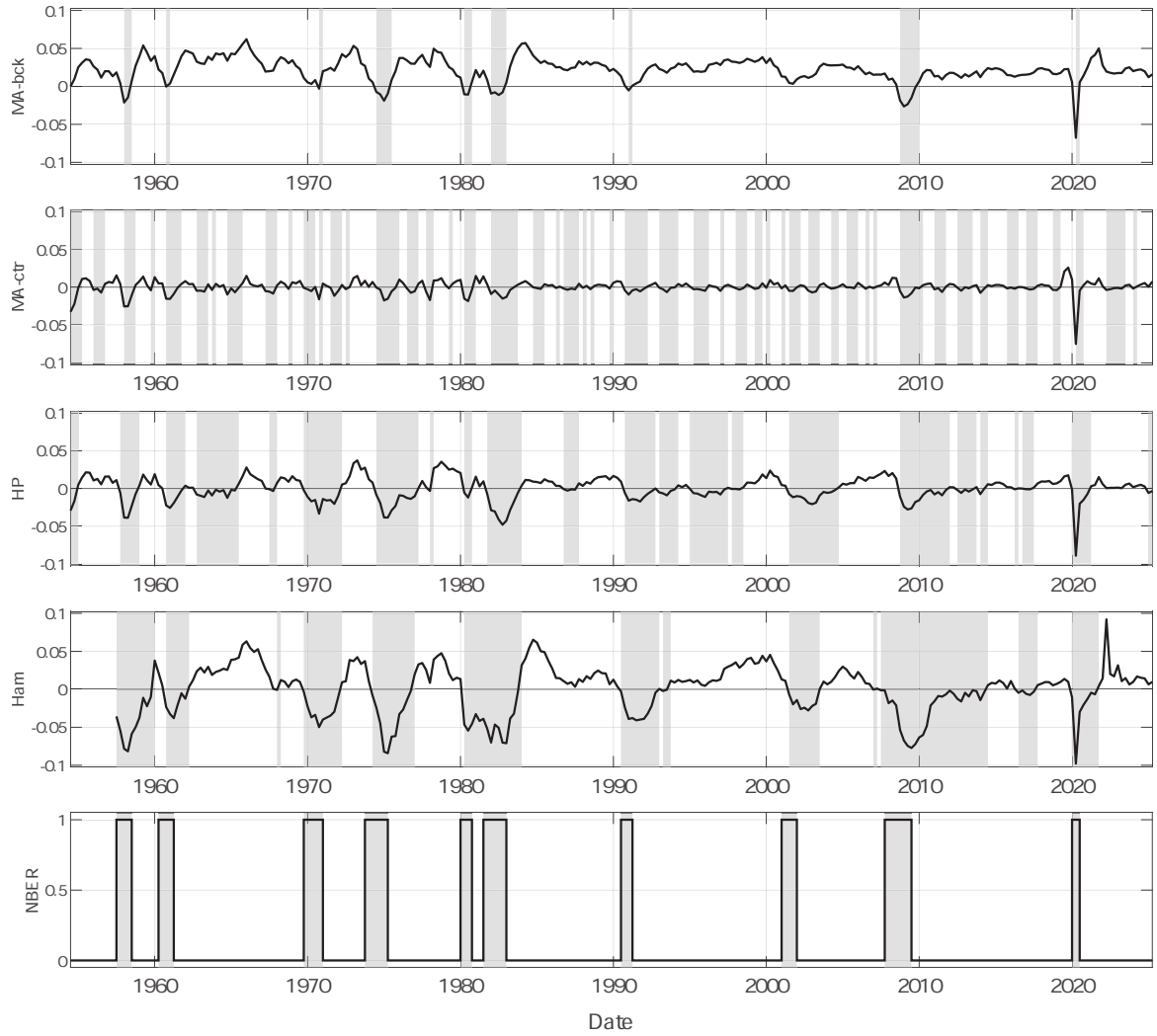

Figure 4: Alternative business-cycle measures. White (Grey) represents normal (recession) phases. Y-axis: detrended log GDP time series (1954Q3.2025Q1). Panels, top to bottom: backward-looking 7-quarter MA (MA-BCK); centered 7-quarter MA (MA-CTR); Hodrick–Prescott filter (HP, $\lambda = 1600$); Hamilton filter (Ham); NBER recession episodes.

classification, the baseline model's findings are broadly corroborated when using backward-looking cycle measures and the NBER recession definition: multipliers tend to be positive and statistically significant during second terms, and insignificant or negative during first terms. This pattern is amplified in the case of the Hamilton filter; in such cases, during second terms the multipliers are significant and exceed unity, peaking around the fourth quarter at 1.5. By the twelfth quarter, the multiplier settles at 1.32 and is therefore cumulatively above one. By contrast, under the two forward-looking formulations, the centered moving average yields negative multipliers in second terms and insignificant multipliers in first terms. Similarly, with the Hodrick–Prescott filter we obtain positive multipliers in first terms and insignificant ones in second terms. Although these findings again underscore the sensitivity of multipliers to the definition of the business cycle—even when the cycle is included only as a control—the NBER cycle classification, the only unambiguous recession measure, reinforces the main results.

The ambiguity noted in the previous case does not arise for the Democratic-versus-Republican classification. Here, during Democratic administrations, the multipliers are consistently higher than under Republican administrations, regardless of the business-cycle measure employed. In particular, we sometimes find positive multipliers under Democrats and insignificant ones under Republicans, or insignificant multipliers under Democrats and negative ones under Republicans. In all instances, the difference favors Democrats, and the multipliers are never estimated to be negative under Democratic administrations. Contrary to the term-based classification, in this case the multipliers are never above one. This result—and its robustness to alternative cycle definitions—underscores the importance of the political classification for the behavior of the multipliers.

5.3. Monetary Policy: pre-Volker vs Volker-Greenspan

In this section, I conduct an additional robustness analysis focusing on the monetary policy stance. Specifically, I introduce a new control that distinguishes between the pre-Volcker and the Volcker–Greenspan eras. Following Bilbiie et al. (2008), we emphasize that, prior to 1980, U.S. monetary policy did not systematically adhere to a Taylor rule prescribing a more-than-proportional interest-rate response to inflation. This estimated *accomodative* stance before 1980 has also been shown (Forni and Gambetti (2010)) to have an expansionary effect on fiscal multipliers. In a model with limited asset market participation, Bilbiie et al. (2008) demonstrates that such accommodation may be optimal under a downward-sloping aggregate demand curve (the *inverted aggregate demand logic*). In our case, monetary policy may therefore play a decisive role in shaping the size of the multipliers. The results are reported in table (4).

When controlling for the monetary polcy stance, the results are unambiguous and confirm the main finding. Moreover, controlling for monetary policy yields multipliers that are consistently positive, even at a 12-quarter horizon under the second term. Concerning the Dem-Rep classification, under the democratic administrations, they exceed 1 at 12 quarter horizon. Conversely, under the republicans, multipliers are statistically negative after 12 quarters, confirming the pattern.

Table 4: Cumulative multipliers by term and party (1954Q3-2025Q1).

	Y	C	I
Panel A. First / Second			
$h = 0$	0.560* / 0.819***	-0.258 / 0.127	0.055 / -0.033
$h = 4$	0.490* / 0.769***	-0.089 / 0.190*	-0.126 / -0.133
$h = 8$	-0.319 / 0.860***	-0.480*** / 0.151	-0.453*** / -0.023
$h = 12$	-0.537** / 0.783***	-0.621*** / 0.058	-0.535*** / -0.070
Panel B. DEM / REP			
$h = 0$	0.986*** / 0.234	0.092 / -0.394	0.061 / -0.033
$h = 4$	0.654*** / -0.142	0.000 / -0.676***	-0.026 / -0.120
$h = 8$	0.372** / -0.268	-0.093 / -0.643***	-0.132* / -0.197**
$h = 12$	1.030*** / -0.536***	0.256** / -0.716***	0.135* / -0.273***

Notes: Each cell reports two estimates separated by "/". Panel A: First / Second presidential term. Panel B: Democrat (DEM) / Republican (REP). *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$ (two-sided z-test).

6. Ramey Defence News Shock

The fundamental challenge in identifying government spending shocks à la Blanchard–Perotti is agents' anticipation of policy. In practice, a nontrivial lag—typically at least one quarter—separates the policy announcement from its implementation, so the estimated "shock" may fail to capture a genuinely exogenous increase in spending. Among proposed alternatives is the approach popularized by Ramey (2011) and adopted by many others, which uses news about defense spending. These news measures are assumed to be orthogonal to other macroeconomic variables and to the state of the business cycle. Nevertheless, this identification is also open to criticism—notably that it relies on a small number of discrete informational events over time. This is especially problematic for state-dependent analysis, where the amount of useful variation for estimation can be quite limited. For these reasons, the two strategies should be employed jointly and viewed as complementary rather than mutually exclusive.

Figure (**??**) displays the fiscal multipliers under the two classifications, while Table (5) reports the estimates and their statistical significance. For the first- versus second-term classification, there is no clear difference: most multipliers are statistically negative after 12 quarters. By contrast, the Democratic versus Republican classification once again corroborates the evidence shown in earlier sections: multipliers are consistently positive under Democratic administrations and strongly negative under Republican administrations. Specifically, at horizons 4 and 8, the output (Y) multiplier equals 1.73 and 1.09, respectively, under Democrats, while it is -6.08 and -5.86 under Republicans. By quarter 12, the cumulative multiplier for Democrats remains positive (0.71), whereas for Republicans it is sharply negative (-5.84). The consumption and investment responses mirror these patterns: under Democrats, both consumption and investment show a modest early "crowding in" (0.80 for consumption at $h = 4$, investment close to zero), which later fades, while under Republicans, pronounced "crowding out" of consumption (about -4.26 at $h = 4$ and -3.03 at $h = 8$) and investment (about -2.79 at $h = 4$ and -3.40 at $h = 8$) drives the negative multipliers.

Table 5: Cumulative multipliers with Ramey news, by term and party (1954Q3-2025Q1).

	Y	C	I
Panel A. First / Second			
$h = 0$	−1.009 / 3.775	−0.967 / 1.060	−1.389 / 0.933
$h = 4$	-2.868^{**} / −0.564	−0.234 / −1.088	-3.718^{***} / −1.396
$h = 8$	-6.328^{**} / -2.984^{**}	−1.314 / -1.550^{*}	-6.322^{***} / -3.028^{**}
$h = 12$	-9.679^{*} / -3.868^{***}	−3.142 / -1.792^{***}	-8.501^{*} / -3.056^{***}
Panel B. DEM / REP			
$h = 0$	1.723 / 2.315	−0.047 / −1.200	0.404 / 0.825
$h = 4$	1.727^{**} / -6.083^{**}	0.799^{**} / -4.256^{**}	−0.399 / -2.793^{**}
$h = 8$	1.094^{**} / -5.857^{***}	0.573^{**} / -3.035^{***}	-0.677^{***} / -3.403^{***}
$h = 12$	0.710^{**} / -5.843^{***}	0.410^{**} / -2.992^{***}	-0.832^{***} / -2.991^{***}

Notes: Each cell reports two estimates separated by "/". Panel A: First / Second presidential term. Panel B: Democrat (DEM) / Republican (REP).

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$ (two-sided z-test).

7. Conclusions

I conduct an empirical analysis of state-dependent spending multipliers for the United States, conditioning the estimates on the political cycle within a local projection framework. My motivation is the *partisan theory*, which offers a rationale for the heterogeneity of the multipliers. I operationalize political states along two complementary dimensions: (i) first versus second political terms, and (ii) party control—Democratic versus Republican.

The partisan perspective can justify heterogeneity for at least two reasons. First, governments that do not expect to be re-elected may be more inclined to finance spending through debt; at the same time, private agents may anticipate that an incoming administration of a different party will not internalize the inherited debt via tax increases or spending cuts. Second, parties are presumed to pursue different objective functions: right-leaning governments prioritize inflation and debt containment, whereas left-leaning governments emphasize reducing unemployment and fostering economic growth. These differences can influence multipliers both through distinct designs of expansionary policy and, crucially, through agents' expectations.

An additional implication of political bipolarism and the cyclical alternation of governments is a tendency toward higher public debt—and, plausibly, a rising debt-to-GDP ratio—patterns that we indeed observe empirically.

The findings align with the priors: spen multipliers are positive when expansion occurs during second terms and negative during first terms. Alternative business-cycle controls yield partially divergent results, especially under forward-looking detrending schemes. By contrast, estimates based on the Ramey Defence News Shock confirm the thesis.

For the Democratic-versus-Republican comparison, the evidence is robust across controls, sensitivity checks, and shock-identification strategies: multipliers under Democratic administrations

are significantly larger than under Republican administrations. In many specifications, Democratic multipliers are positive while Republican multipliers are negative; in others, Democratic multipliers are significantly positive and Republican multipliers are insignificant; or Democratic multipliers are insignificant and Republican multipliers are significantly negative—consistently indicating a materially different pattern. Overall, these results highlight the pivotal role of political expectations in shaping macroeconomic dynamics and the effectiveness of fiscal policy.

The results suggest several policy implications. Negative multipliers during first terms—or under Republican administrations—need not be interpreted as inherently undesirable. Assuming symmetry of responses, negative multipliers imply that fiscal consolidation can be expansionary or at least non-detrimental. This, in turn, points to the possibility of optimal timing for budget consolidation and public-debt reduction, particularly in first terms and, especially, under Republican administrations.

Promising avenues for future research include embedding partisan theory within structural business-cycle models to assess the mechanisms underlying these multipliers, and extending the analysis beyond the United States. While the U.S. two-party system offers a particularly clean setting for this study, comparative evidence from other institutional environments would help gauge the external validity of these findings.

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A. Additional figures and tables

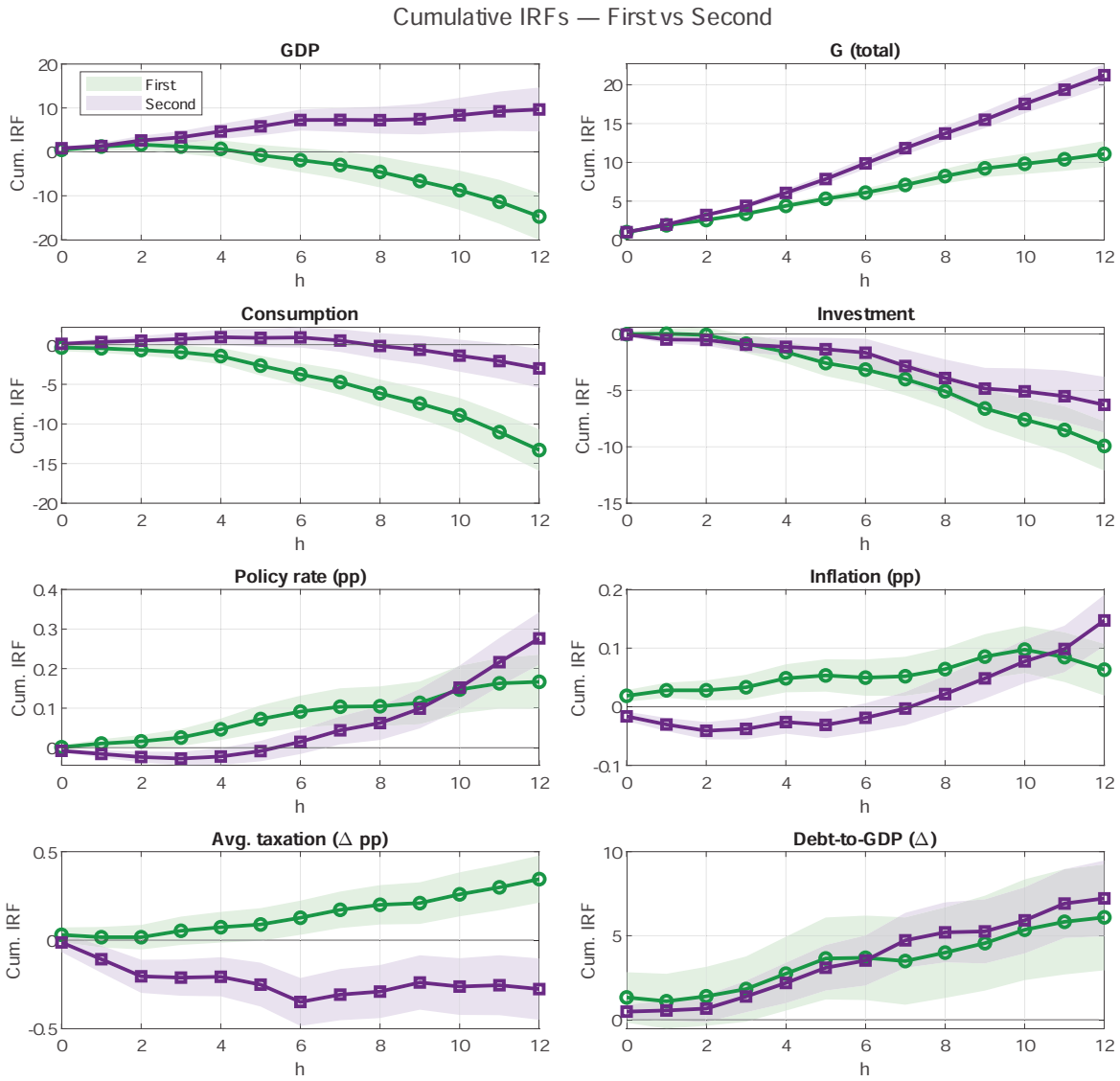

Figure 5: Cumulative IRFs, first vs. second presidential term.

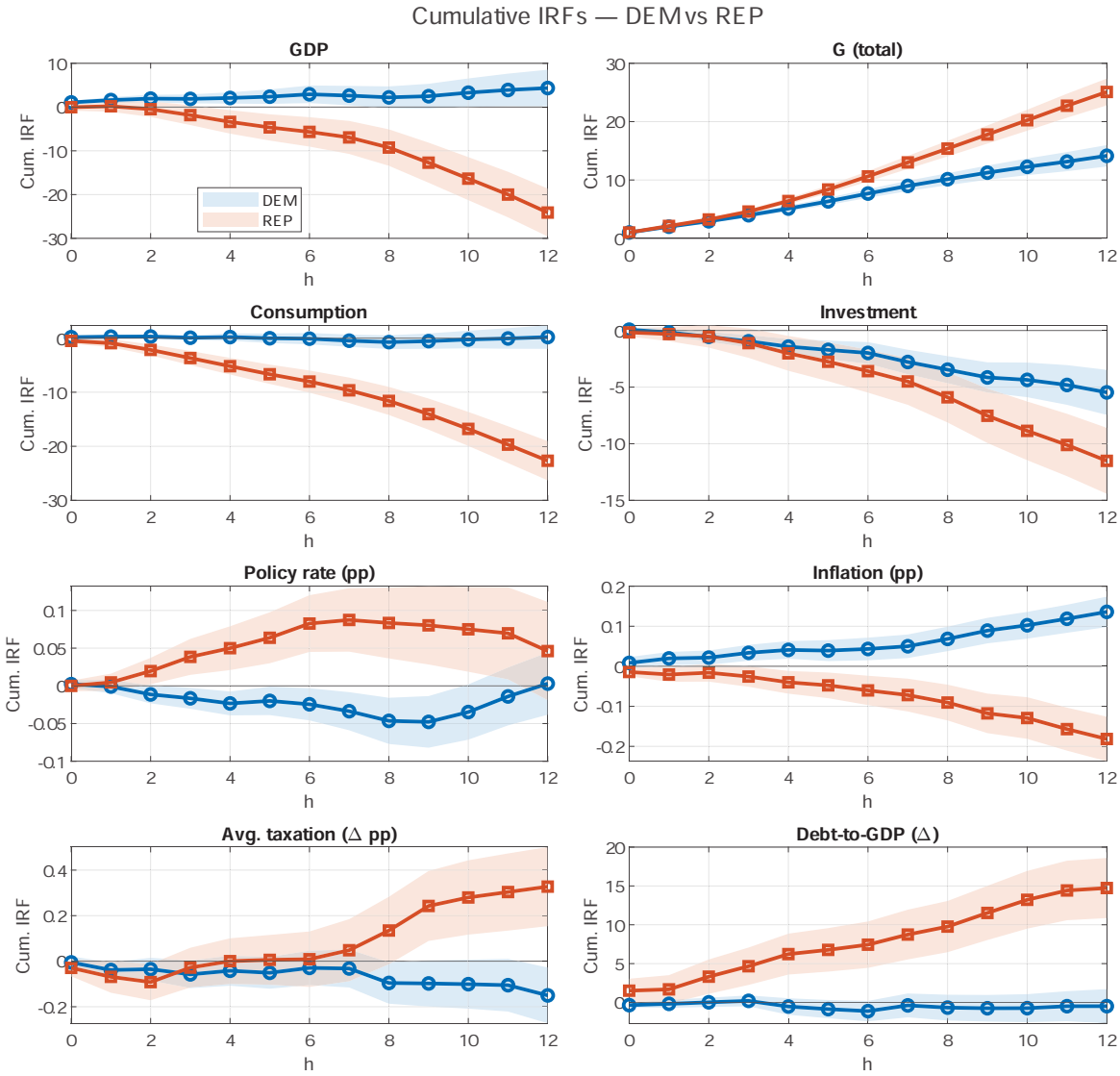

Figure 6: Cumulative IRFs, Democratic vs. Republican administrations.

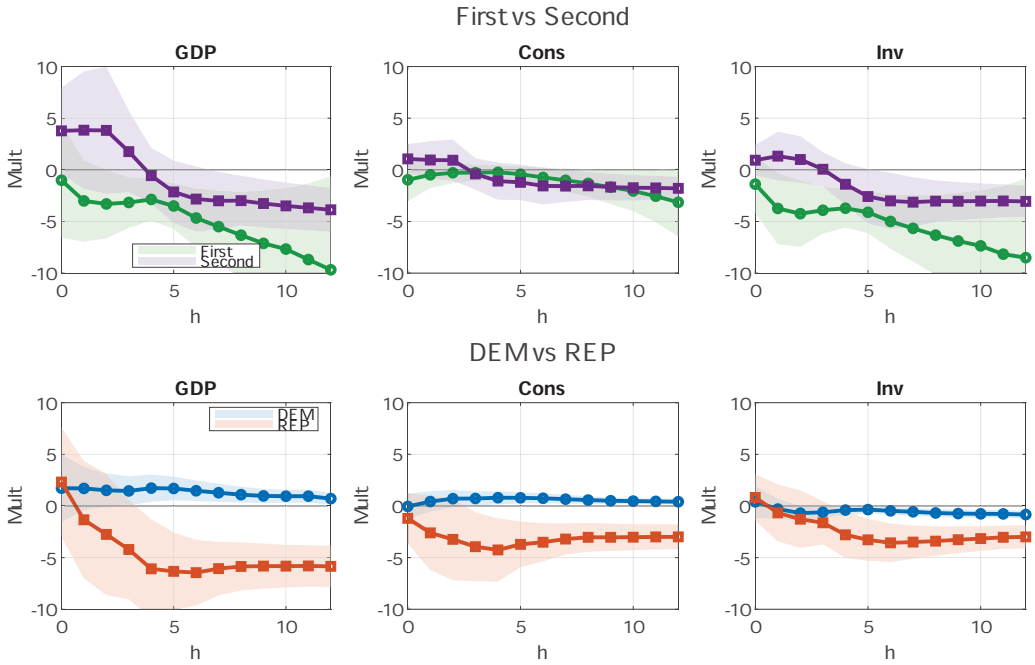

Figure 7: Spending multipliers for a defence news shock. Upper panel: first vs. second term. Lower panel: Democratic vs. Republican. 90% confidence bands.

Table 6: Cumulative GDP multipliers at $h = 12$, by term and by party (lags $L = 4$)

	Trend	BC	ZLB	Regime 1	Regime 2	Δ
Panel A: by presidential term (Second − First)						
1	OFF	OFF	OFF	0.445**	0.771***	-0.326
2	OFF	ON	OFF	0.360**	0.855***	-0.495
3	OFF	OFF	ON	0.328*	0.843***	-0.515
4	OFF	ON	ON	0.243	0.921***	-0.678
5	ON	OFF	OFF	0.188	0.621***	-0.433
6	ON	ON	OFF	0.129	0.688***	-0.559
7	ON	OFF	ON	0.103	0.626***	-0.523
8	ON	ON	ON	0.061	0.708***	-0.647
Panel B: by party (DEM − REP)						
1	OFF	OFF	OFF	0.509***	−0.081	0.590
2	OFF	ON	OFF	0.536***	−0.066	0.602
3	OFF	OFF	ON	0.497***	−0.070	0.567
4	OFF	ON	ON	0.542***	−0.050	0.592
5	ON	OFF	OFF	0.408***	0.034	0.374
6	ON	ON	OFF	0.430***	0.025	0.405
7	ON	OFF	ON	0.386***	0.035	0.351
8	ON	ON	ON	0.409***	0.034	0.375

Note: stars = $^{***}p < 0.01$, $^{**}p < 0.05$, $^{*}p < 0.10$.

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