Political donations and GDP forecast accuracy: do they always help?

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Abstract

We examine whether and how economists' political donations improve the accuracy of their GDP forecasts. Using a sample of U.S. GDP growth forecasts for the period 2003–2020, we find that economists with political donations are more accurate than their peers. Thus, although economists' political donations can be small and reflect political orientation leading to a potential partisan bias, they can provide an information advantage in predicting GDP. We also document that the informational benefits of donating are stronger when the party financed by economists controls both the Senate and House of Representatives, while they are reduced in periods of uncertainty and when the forecasting house is less concerned with reputation and more politically active. These results suggest that a partisan bias exists among economists, but its negative consequences arise when they face forecasting difficulties or they are exposed to more heterogeneous and impartial information.

Keywords: Political Information**;** Macro economy**;** Forecasting**;** Political donations; Elections
JEL Classifications: D72**;** D80**;** D82**;** E17**;** L25

1. Introduction

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Gross Domestic Product (GDP) forecasts are an important source of information in financial markets (Zarnowitz, 1985). As they provide expectations about the economy, economic agents use GDP forecasts to complement micro-predictions in their decision-making process (Ackert & Hunter, 1995; Li et al., 2014). Then, if GDP forecasts are inaccurate, economic agents might undertake sub-optimal business choices (Tanaka et al., 2018) with negative implications for both firms (Binz et al., 2021) and the economy (Angeletos & Pavan, 2004; Beaudry & Portier, 2007; R. Cooper & John, 1988; Jaimovich & Rebelo, 2009; Lorenzoni, 2009; Morris & Shin, 2002). Despite that, little is known on the determinants of GDP forecast accuracy, as prior studies analyzing micro-macro relations mainly focus on GDP consensus forecast (Li et al., 2014). We fill this gap in the literature by examining the association between economists' political donations and their GDP forecast accuracy.

Theoretical studies (Marinovic et al., 2013; Ottaviani & Sørensen, 2006) suggest that macroeconomic forecast accuracy is shaped by how economists handle public and private information. Prior research (Bertrand et al., 2014; Christensen et al., 2017) finds that political donations provide firms with an information advantage by facilitating access to politicians. Among the different types of information, political information (i.e., information about economic policies that politicians obtain in their activities) is highly relevant for economists because politicians can shape macroeconomic trends through policy changes, such as fiscal reforms and budget cuts (Hibbs, 1992; Wright, 2012). However, as political donations are, on average small, especially compared to firms' contributions, they may not give economists access to valuable political information. Moreover, by reflecting individual political orientations (Ansolabehere et al., 2003; Jiang et al., 2016), they may lead economists to a biased interpretation of the information according to their partisan orientations and beliefs (Campbell et al., 1960; McGrath, 2017). Several studies document the existence of partisan bias among households (Hersh & Goldenberg, 2016) and more sophisticated economic agents, such as

2

credit rating analysts (Kempf & Tsoutsoura, 2021). Political donations may not improve forecast accuracy if a partisan perceptual screen bias exists. Hence, the association between GDP forecast accuracy and economists' political donations is ultimately an empirical question.

We address our research question on a sample of U.S. one-quarter ahead GDP growth forecasts collected from the Wall Street Journal (WSJ) Survey of Economists for the period 2003–2020. Contrary to prior studies (Hann et al., 2012; Konchitchki & Patatoukas, 2014), we adopt a more granular level of analysis by relying on economists' GDP forecast to exploit their idiosyncrasies and study the role of their political donations, which are measured considering economists' campaign contributions to any political party.

We find that economists with political donations issue more accurate GDP forecasts than their peers, suggesting that, although political donations might be small and associated with a partisan bias, reputational concerns drive economists away from its adoption. We also document that political donations improve forecast accuracy when the financed party controls both the Senate and the House of Representatives, namely when connected politicians are more likely to provide economists with valuable political information. However, these results weaken when the financed party also occupies the White House. This evidence suggests that a partisan perceptual screen bias occurs among economists and offsets the informational benefits of financing powerful politicians.

To explore the mechanism behind our findings, we run a battery of additional analyses focusing on a set of factors that make partisan perceptual bias more likely to arise. First, we study the association between economists' political donations and GDP forecast accuracy under high and low policy and economic uncertainty. We find that the benefits of political donations fade as uncertainty increases. When uncertainty is higher, the likelihood and, above all, the outcomes of economic policies are more ambiguous and difficult to predict. When facing uncertainty, economic agents become overconfident about their private signals (Amiram et al.,

2018; K. Daniel et al., 1998; K. D. Daniel et al., 2001). Greater self-confidence strengthens partisan identification (Ortoleva & Snowberg, 2015) which impedes economic agents from forming an objective assessment of economic trends, and makes them less accurate. Then, we exploit economists' heterogeneity in incentives and motivations to be accurate by examining both economists' and forecasting houses' reputational concerns. We do not find that economists' reputational concerns play a role, while we document a significant moderating role of forecasting houses' reputational concerns. Specifically, our results are weaker for economists employed in financial and corporate forecasting houses that prior research (Laster et al., 1999) found to be more concerned with forecast accuracy.

Next, we consider the role of political donations made by economists' forecasting houses. Because economists' political donations tend to be small, forecasting houses' political donations might ease access to politicians. However, as forecasting houses might donate to both parties for ensuring enduring access to powerful politicians, their donations can have unwanted effects, such as exposing economists to politically heterogeneous information. Consistent with this view, we find that our results are stronger when both economists and forecasting houses donate, but they are weaker if they finance different political parties, confirming the existence of an economists' partisan perceptual screen bias.

We run a battery of additional analyses to rule out alternative explanations. First, we document that political donations are valuable for economists as politicians can influence macroeconomic trends, and, hence, their political information provides connected economists with an information advantage. Then, we explore economists' motivations to finance political parties. Specifically, we address the endogeneity of political donations by using the distance from Washington D.C. and changes in regulation on campaign contributions as instrumental variables. Lastly, we analyze whether our findings are affected by forecasting houses' pressure

to donate and favor their candidates. We do not find evidence in line with this claim as economists seem to respond more to their personal beliefs than to favoritism dynamics.

Our study makes several contributions. First, we provide novel evidence on the determinants of GDP forecast accuracy. We document that political donations are a relevant driver as they can provide economists with valuable political information. Our evidence also suggests that political donations expose economists to downside effects because of the partisan perceptual screen bias. Thus, we contribute to previous studies on the advantages of political donations by showing that they do not always provide value-relevant information (Chaney et al., 2011; Faccio, 2006; Faccio et al., 2006; Goldman et al., 2009; Houston et al., 2014; Leuz & Oberholzergee, 2006; Lin et al., 2018). Specifically, we identify a set of circumstances that make economists to rely more on the partisan perceptual screen bias so that the benefits of the political donations are partially offset: the level of external uncertainty and forecasting houses' characteristics.

In this way, our study provides novel evidence on how forecasters process information and make predictions when facing uncertainty. Prior studies document that forecasters are less accurate during periods of uncertainty (Bloom, 2014; Loungani & Trehan, 2002; Zarnowitz, 1985), advocating greater difficulties to incorporate information as an explanation. By exploiting forecasters' differential access and interpretation of political information granted by political donations, we provide a direct test for the role of information in forecasters' exposure to uncertainty for a setting (economists) that has received scant attention in the literature.

Lastly, we shed new light on the interplay of individual and corporate political donations. Several studies in political economy analyze the role of party cues and group rhetoric in partisan differences (Bisgaard & Slothuus, 2018). Recently, Tahoun et al. (2019) investigate why firms hire CEOs with different political ideologies and the impact of this political ideology mismatch on corporate choices. We take a different perspective by considering how the political ideology

mismatch affects how individuals process information and form their predictions. Our evidence suggests that differences in political orientations have the unwanted effect of triggering the adoption of partisan perceptual screen bias, thus reducing the information value of political donations.

The rest of the paper is organized as follows. Section 2 describes the hypothesis development. Section 3 introduces the research design and sample selection. Section 4 includes the empirical results. Additional analyses are discussed in Section 5, and Section 6 concludes.

2. Literature review and hypotheses development

2.1. *GDP forecast accuracy*

GDP forecast accuracy has relevant economic implications as information on future GDP is crucial for managers' and corporate actors' decision-making processes (Ackert & Hunter, 1995; Zarnowitz, 1985). Economists have strong incentives to release timely and accurate GDP forecasts because they compete and are rewarded for their forecasts' accuracy. Furthermore, GDP forecast accuracy is essential for attracting and retaining clients that continuously integrate this information in their decision-making process, and select economists based on their accuracy (Laster et al., 1999). For instance, managers of non-financial firms make extensive use of GDP forecasts for internal planning and budgeting, and, hence, they are highly concerned with the accuracy of the forecasts.

According to theoretical models (Marinovic et al., 2013; Ottaviani & Sørensen, 2006), macroeconomic forecast accuracy is shaped by how economists handle and integrate public and private information. Macroeconomic forecasting requires several inputs and types of information. Government statistics and reports on historical and current economic data are relevant public information sources, but they might not be sufficient to ensure accurate forecasts. Economists make assumptions and assess future economic policies, prospective legislation, external events, and political landscapes. Therefore, they seek additional sources of

information to form expectations about future political and economic events. For instance, they regularly organize and attend economic outlook conferences to obtain insights from government representatives, academics, and other experts (Laster et al., 1999).

Despite that, there is scant empirical evidence on whether and how private and public information shape GDP forecast accuracy. Few studies have analyzed economists' efficient use of information in the economics literature. Brown and Maital (1981) find that, although 6-month-ahead Real Gross National Product growth forecasts are efficient for predicting several macroeconomic indicators, 12-month-ahead forecasts do not incorporate information on monetary growth in an efficient way. Similarly, Schuh (2001) shows that participants in the Survey of Professional Forecasters (SPF) tend to under-predict GDP when inflation and nominal interest rates are unusually low. Prior studies in the accounting literature mainly focus on GDP consensus forecasts (Hann et al., 2012; Konchitchki & Patatoukas, 2014), overlooking the heterogeneity of economists that determine the consensus and providing mixed results. Konchitchki and Patatoukas (2014) document that economists underreact to aggregate earnings, while (Hann et al., 2012) find the opposite. Therefore, it is unclear whether and how economists' heterogeneity in handling information shapes their accuracy. We fill this void in the economics and accounting literature by focusing on political donations as they can affect both economists' access to and usage of political information.

2.2. Political donations and GDP forecast accuracy

We define political information as information about economic policies and facts that politicians obtain through their political activities over prospective legislation, future government actions (e.g., interest rate changes and budget cuts), or failed negotiations with other countries, among others (Kim, 2013). Economists are interested in political information because government acts and legislation have various macroeconomic outcomes (Hibbs, 1992; Wright, 2012). For instance, insights into negotiations with other countries (e.g., trade

7

agreements with China) can be useful to determine imports and exports' possible outcomes. Similarly, information about future fiscal policies and employment laws can help predict federal budgets and unemployment rates, respectively. Although political information is publicly available through reports filed by institutional sources (e.g., U.S. Congress and Senate), a large amount is often private. For instance, the likelihood that bills would pass in Congress, the reasons for disagreement among parties, and potential legislative modifications are known before the relevant documents are filed, but they cannot be fully predicted ex-ante. Thus, accessing informed and powerful politicians provide a significant information advantage to economists as they might obtain more information to form their expectations better.

Political donations represent important means to access political information because they facilitate interactions with policymakers (Christensen et al., 2017; M. J. Cooper et al., 2010; Wellman, 2017). In line with this view, several studies document that political donations affect firm performance, corporate financing, cost of capital (Chaney et al., 2011; Faccio, 2006; Faccio et al., 2006; Goldman et al., 2009; Houston et al., 2014; Leuz & Oberholzergee, 2006), the likelihood of regulatory interventions (Correia, 2014; Naughton et al., 2019), and public scrutiny (Ramanna & Roychowdhury, 2010; Ye & Yu, 2017). Above all, Christensen et al. (2017) demonstrate that political donation is an essential source of information for corporate analysts as it allows them to gain better insights into economic policies' implications for corporate earnings.

Nevertheless, political donations may not result in higher GDP forecast accuracy. Contrary to corporate donations, individual donations tend to be smaller. The low amount can hinder access to valuable information and make political donations more a signal of economists' political orientation than a tool to access political information. Ansolabehere et al. (2003) contend that individual political donations should be considered a consumption good that makes individual contributors more politically active than others. As a manifestation of economists'

political preferences, political donations influence the interpretation of information and economic realities (Curtin, 2016; E. R. Gerber et al., 2013; Mian et al., 2018). Specifically, a partisan perceptual screen bias can arise and lead to a biased assessment of the information and economic realities according to individual partisan orientation. Prior studies document that partisan perceptual screen bias affects households' valuation of economic conditions and the economic behaviors of professionals such as doctors (Hersh & Goldenberg, 2016) and judges (McKenzie, 2012; Posner, 2008). Kempf and Tsoutsoura (2021) show that partisan perceptual screen bias occurs among credit rating analysts and is associated with less accurate corporate credit ratings.

Ex-ante, it is unclear whether economists would also adopt a partisan perceptual screen. Previous research in political economics finds that partisan differences are mitigated when individuals have strong incentives to be accurate and face a less ambiguous state of the world (Gentzkow et al., 2006; Hong & Kacperczyk, 2010). Specifically, there is evidence that expertise and economic incentives drive economic agents away from adopting a partisan perceptual screen. Economists have prominent reputational concerns, as their reputation is key to attracting and retaining clients. At the same time, economists might rely more on the partisan perceptual screen to release forecasts because they deal with a broader and more heterogeneous set of inputs to collect, process, and combine. Indeed, aggregate economic outcomes are affected by several factors that might point to different scenarios and for which economists might not always have complete information. Hence, economists might rely more on partisan beliefs to form their predictions. If political donations do not provide economists with access to valuable information or reflect their political orientations, these would not be associated with higher forecast accuracy. Given that, we formulate the following non-directional hypothesis:

Hp: An association exists between GDP forecast accuracy and economists' political donations

3. Research design and sample selection

3.1. Empirical model

To test the association between economists' political donations and GDP forecast accuracy, we estimate the following OLS regression equation:

$$(1) \quad |FE|_{jt} = \beta_0 + \beta_1 \, Connected_{jt}^{Indicator} + \beta_i Controls_{jt} + \varepsilon_{jt}$$

Subscript j indicates the economist's forecast, while subscript t indicates when the forecast is released. $|FE|$ is the GDP forecast error of the economist, calculated as the absolute value of the one-quarter ahead GDP quarterly growth forecast issued by economist j less the final GDP quarterly growth estimate.[3] $|FE|$ is an inverse measure of accuracy where higher values indicate less accurate GDP forecasts (Lamont, 2002; Lang & Lundholm, 1996; Weiss, 2010). Our coefficient of interest is β_1 which captures the effect of economists' political donations (*Connected* ^{Indicator}) on the GDP forecast error. We expect β_1 to be negative and statistically significant if the benefits of economists' political donations offset the adverse effects due to the partisan perceptual screen bias. We describe *Connected* ^{Indicator} in Subsection 3.2.

Individual political donations are not the only means that economists can use to obtain political information, as they can also rely upon forecasting houses' political capital. Therefore, we consider whether an economist's forecasting house is politically active through campaign contributions by including an indicator variable (*Forecasting House Connected* ^{Indicator}) that equals 1 if the forecasting house finances any candidate during the presidential cycle and 0 otherwise.

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[3] We rely on the GDP estimates released by the Bureau of Economic Analysis (BEA) on September 15, 2021, the date when the data were collected. Lyu et al. (2018) cast doubt on whether governmental agencies' GDP estimates genuinely reflect the state of the economy. This concern should be weaker in U.S. because of a lower level of corruption.

We control for current economic conditions, including the investor sentiment index developed by the University of Michigan (*Investor sentiment index*) and an indicator variable equal to 1 if there is an economic recession according to the National Bureau of Economic Research (*Nber recession*), and 0 otherwise. Moreover, we account for those characteristics of the political environment, such as the political affiliation of the elected President (*Rep. President*), whether the ruling party controls both the Senate and the House of Representatives (*Unified Government*), and whether the elected President is in his second term (*Second office*).[4]

We also include a set of controls for the complexity of the forecasting task. Specifically, we add the dispersion of GDP forecasts computed as the standard deviation of monthly GDP forecasts released by all the economists at time t (*Sd. Forecasts*), the number of economists releasing GDP forecasts at time t (*N Economists*), and whether more than one economist is releasing a forecast from the same forecasting house (*Team*). If the forecasting task is more complex, we should expect more disagreement among economists, and, hence, GDP forecasts should be more heterogeneous. Moreover, when fewer economists release GDP forecasts, the visibility of a GDP forecast error is higher so that economists will put an extra effort resulting in a lower GDP forecast error (Marinovic et al., 2013). Also, we control for the error of the GDP forecast released by the International Monetary Fund (*IMF GDP forecast error*)[5] and the economist's historical GDP forecast performance to account as a proxy for forecasting ability (*Economist ability*). For each time t, we rank the economist based on her GDP forecast errors where higher values indicate less accurate forecasts, and we consider the mean value of the ranks in the prior three periods to capture the economists' past inaccuracy.

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[4] All variables are extracted from the Statistics of the Congressional Election.
[5] Although our measure of GDP accuracy is monthly released and with a quarterly horizon, the IMF only release GDP forecasts on a semi-annual base and with a yearly horizon.

Lastly, we include time trends, economists' and forecasting houses' fixed effects. Including the fixed effects is warranted to control for time-invariant characteristics of economists and forecasting houses. We provide a detailed definition of all the variables in Table 1.

(Insert Table 1 around here)

3.2. Economists' and forecasting houses' political donations

To determine economists' political donations, we start with the economist's name and employer (i.e., forecasting house) reported in the WSJ survey.[6,7] We use the economists' names and surnames to collect data on their donations from the Federal Election Committee Database.[8] We apply a set of filters to ensure that the individuals with political donations are the economists issuing GDP forecasts for WSJ. First, we manually inspected their names and surnames, and we excluded individuals whose names and surnames do not precisely match the ones reported in the WSJ survey.[9] Second, we keep the individuals whose employer (i.e., forecasting house) is the same as those reported in the WSJ survey. Then, we use economists' disclosed addresses to extract all the donations that economists might have done before and after being employed at one of the WSJ forecasting houses.[10]

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[6] Before performing the data collection, we extracted unique economist data by name, surname, and forecasting house. Because certain forecasting houses cease to exist because of merge, acquisition, and bankruptcy, the same economist can be included multiple time in the database. Indeed, the same economist might be present multiple times because of different affiliation. A further cause of duplicates, it is the possibility of economists to step back and be hired from different forecasting houses across the time.

[7] At this step of data collection, we do not consider the category of employer of the economist. Because of missing values for this category and/or the usage of corporate acronyms for forecasting houses, using such search field reduces the data availability.

[8] Please, refer to https://www.fec.gov/data/receipts/individual-contributions/. The webpage provides an interactive tool to search for individual contributions. Nevertheless, it is not the only method to extract individual contributions. The FEC also provides bulk data (https://www.fec.gov/data/browse-data/?tab=bulk-data). Because of the limited number of economists, we consider the manual extraction from the interactive tool to be less time consuming and more efficient for our goal.

[9] The algorithm available in the FEC database does not always exactly match the included inputs in terms of name and surname. For example, when looking for the name John, the FEC database provides individual donations proceeding from both John as well as Johnathan.

[10] Both the steps have been discussed by the authors before being implemented. Also, we independently double scrutinize the activities included in two steps.

Instead, to determine the political connections of the forecasting houses (*Forecasting House Connected [Indicator]*), we manually extract the data from the Center for Responsive Politics (CRP), also known as Open secrets.[11] We extract the data, relying on the list of WSJ forecasting houses associated with each economist.[12]

To capture economists' and forecasting houses' political orientation, we consider the overall amount of donations collected and later distributed to the Republican and Democratic parties during each presidential cycle for each economist and forecasting house, respectively. Specifically, we rely on the political orientation of the PAC/Super PAC recipient (i.e., Republican, Democratic, and others) to which they donate whenever it is disclosed. When the affiliation of the recipient PAC/Super PAC is not available, we determine the affiliation to a political party considering the political party that receives the majority of the donations raised by the PAC/Super PAC during the electoral cycle.

3.3. Sample Selection

We estimate Eq. (1) on a sample of one-quarter ahead GDP quarterly growth forecasts released each month in the period 2003–2020. Following previous studies (Frenkel et al., 2009; Koske & Stadtmann, 2009; Mitchell & Pearce, 2007), we extract GDP forecasts from the WSJ survey, which collects macroeconomic forecasts from a set of prominent economists working for investment banks, commercial banks, financial consulting firms, non-profit industry groups, and universities. Importantly, WSJ discloses the economist's name, his/her estimates, and

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[11] Please, refer to https://www.opensecrets.org/. The main advantage of using Open secrets is the possibility to have all the donations grouped by institutions. Also, Open secrets allows a more user-friendly interface to extract variation in donations across years. The availability of donations by forecasting houses reduces the possible discretion employed by researchers to ensure the replicability of the findings. It is important to notice that Open secrets extracts the data from the FEC database. Therefore, the source of data is the same as the one for extracting economists' donations.

[12] We operate a double scrutiny to identify the forecasting houses in the WSJ list with the institutions present in Open secrets.

his/her forecasting house. Therefore, we can associate each GDP forecast with its economist and forecasting house, respectively.[13]

The systematic identification of the economist with his/her forecasting house and, above all, his/her GDP forecast is key for our identification strategy for several reasons. First, the visibility makes the economist directly accountable for their accuracy, acting both as a reward and monitoring mechanism (Croushore, 1993; Marinovic et al., 2013). Second, because economists are visible and bear the outcomes of (in)accurate predictions (i.e., short-term market evaluation and reputational loss), they have strong incentives to incorporate all available information into forecasts and improve their accuracy (Croushore, 1993; Marinovic et al., 2013). Lastly, the non-anonymity of economists and their forecasting house is necessary to identify their political donations.

The initial sample comprises 12,476 economist-monthly observations, which is reduced to 10,888 after including all variables of interest, corresponding to 154 economists and 143 unique forecasting houses.[14]

4. Empirical results

4.1. Descriptive statistics

Table 2 reports the descriptive statistics. We find that 16% of economists donate to politicians. Thus, economists with political donations do not represent the majority of economists in our sample. On average, economists spend a total of 382$ every two years. In 8.54% of cases, economists mainly finance the Republican party, while in 6.04% of observations, economists can be classified as Democratic. Instead, the percentage of forecasting houses donating to any

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[13] This matching is not possible with other sources of data, such as the SPF or Consensus Economics.

[14] A list of forecasting houses and their frequency is included in the Online Appendix. The number of forecasting houses is not equal over time, as some forecasting houses stopped issuing macroeconomic forecasts either because they were acquired (Chrysler, Bank of America, and Merrill Lynch) or ceased activities (Lehman Brothers, Wachovia, and Bear Stearns). To rule out the possibility that our results are due to transient forecasting houses, we re-run our analyses by retaining forecasting houses present in at least 63% of the cases. We obtain similar results.

political party is 52.14%. In line with Correia (2014), political donations have increased over time, and Republicans are the top recipients.

The average value of *|FE|* (GDP forecast error) is 2.30, while the median is 1.20.[15],[16] Moreover, the average value of *|FE|* of economists with political donations is significantly higher than those without it (2.89 vs. 2.19, respectively). The difference is statistically significant at 1%, suggesting that political donations may not always benefit economists. The dispersion of forecasts (*Sd. Forecasts*) is 0.876, while the average number of economists answering the survey each month (*N Economists*) is 68.76.

(Insert Table 2 around here)

4.2. Main results

Table 3 Column (1) reports the results for Eq. (1) testing the association between economist's political donations (*Connected* ^{Indicator}) and GDP forecast error. We report standard errors clustered at the economist and forecasting house level in parentheses.

(Insert Table 3 around here)

We find that GDP forecast error is greater in case of an economic downturn (*Nber recession*) when investor sentiment (*Investor sentiment index*) is higher, the President is not Republican (*Rep. President*), he is at his first term (*Second office*), and his political party does not control both the U.S. House and the Senate (*Unified Government*). GDP forecasts are also less accurate if the economist underperformed in the past (*Economist ability*), in line with Marinovic et al. (2013) when more forecasting houses complete the survey (*N Economists*), and forecasts are more dispersed (*Sd. Forecasts*). Notably, the coefficient for political donations of the forecasting house is not statistically significant at conventional levels, suggesting that the benefits of political donations might depend on who is connected with politicians.

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[15] In line with Marinovic et al. (2013), we find that GDP forecast error is negatively correlated with the actual value of GDP (-0.236, significant at 1%) suggesting that economists in our sample have reputational concerns.
[16] In untabulated analyses, we find that GDP forecasts vary across the years with a large cross-sectional dispersion.

Above all, the coefficient for *Connected* [Indicator] is negative and statistically significant (coef. = -0.569; t-stat= -3.05), indicating that political donations are positively associated with GDP forecast accuracy. Thus, although prior studies (Jiang et al., 2016) contend that individual donations are unlikely to be strategic because of their small magnitude, and they represent a consumption good reflecting individual political preferences (Ansolabehere et al., 2003), our results seem to suggest that political donations facilitate economists' access to valuable political information.[17]

Prior studies (Christensen et al., 2017; M. J. Cooper et al., 2010) suggest that the information advantages due to political donations depend on the power of the connected politicians, with the information benefit being higher if the individual finances more powerful politicians. Thus, if political donations provide economists valuable access to political information, we should observe the negative effect of political donations being stronger if economists donate to the political party that controls both legislative branches (House of Representatives and Senate). To test this conjecture, we substitute *Connected* [Indicator] with three indicator variables: *Connected* [Senate & HR], which is equal to 1 if the economist finances the party that controls both legislative branches, and 0 otherwise; *Connected* [Senate or HR], that is equal to 1 if the party financed by the economist controls only one legislative branch, and 0 otherwise, and *Connected* [None], that is equal to 1 if the economist finances a political party, but the political party does not control any legislative branch, and 0 otherwise.[18] Empirical evidence is reported in Table 3, Column (2).

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[17] Our findings also hold if we use the dollar amount of political donations. Furthermore, they are robust to the exclusion of economists and forecasting house fixed effects, and to the inclusion of the percentage of politically connected forecasting houses as a further control. Lastly, our results hold if we repeat the analyses by removing one presidential cycle at the time, thus attenuating the concerns that our findings are driven by specific presidential elections and business cycle dynamics.

[18] *Connected* [Senate & HR] is equal to 1 in 5.57% of the observations, *Connected* [Senate or HR] in 6.77% of the observations, and *Connected* [None] in 3.67% of the cases. It is worth to point out that, contrary to firms that tend to donate to both parties (i.e. hedging), economists tend to finance only one party. Thus, the three dummies capture the different power of the political parties rather than a different strategy of the economists. This feature of individual donations reinforces the claim that economists' donations reflect their political orientation.

We find that the coefficients for *Connected* $^{Senate~\&~HR}$ and *Connected* ^{None} are negative and statistically significant (coef. = -1.285; t-stat= -5.97; coef. = -0.640; t-stat= -2.26), while the coefficient for *Connected* $^{Senate~or~HR}$ is not statistically significant (coef. = -0.110; t-stat = -0.53). Notably, the three coefficients are statistically different at 1% level, suggesting that economists are more accurate when donating to a party that controls both branches. These results confirm that the value of political donations varies depending on the recipient. Above all, it confirms that political donations might grant economists access to valuable information consistent with prior studies in the corporate analysts' setting (Christensen et al., 2017).

However, according to prior studies in political economy (Curtin, 2016; A. S. Gerber & Huber, 2009; Mian et al., 2018), when the party supported by individuals controls the White House, economists are more likely to assess and interpret economic conditions and economic policies according to their partisan perceptual screen. Hence, results reported in Table 3 Columns (1) and (2) might not exclude the partisan perceptual screen bias. We tackle this issue by investigating whether our findings in Column (2) are stronger if the political party financed by the economist is also the elected President's party. We create a dummy variable (*Connected* ^{President}), equal to 1 if the party financed by the economist occupies the White House, and 0 otherwise.[19] Then, we include the interaction terms between *Connected* $^{Senate~\&~HR}$ and *Connected* ^{President} and between *Connected* $^{Senate~or~HR}$ and *Connected* ^{President}. Empirical evidence is reported in Table 3 Column (3).

We still document that, the coefficient for *Connected* $^{Senate~\&~HR}$ is negative and statistically significant (coef. = 1.797; t-stat = -7.86), i.e., when the supported party controls both legislative branches, economists are more accurate. However, we find that the coefficient for the interaction term *Connected* $^{Senate~\&~HR}$ × *Connected* ^{President} is positive and statistically significant (coef. = 2.512; t-stat= 5.21), suggesting that the (information) advantage of financing the party

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[19] *Connected* ^{President} is equal to 1 in 6.01% of the observations.

controlling both legislative branches is reduced if the President also belongs to that party. This result may signal the existence of a partisan perceptual screen bias among economists. Notably, we document similar evidence when the party supported by the economist only controls one legislative branch. These findings provide two insights. First, they confirm that the value of the political donation depends on the recipients and their power. Second, they indicate that being connected with powerful parties might not always be beneficial as it can trigger the adoption of a partisan perceptual screen bias. In the next section, we conduct a set of additional analyses to detect the conditions under which economists are more likely to rely upon the partisan perceptual screen.

5. Additional analyses

5.1. Detecting the partisan perceptual screen bias

Our results so far suggest that political donations are not associated with lower forecast accuracy. However, they do not exclude the existence of a partisan perceptual screen bias. To tackle this issue, we examine whether and how the association between economists' political donations and GDP forecast accuracy varies when partisan perceptual bias is more likely to arise. Specifically, we focus on i) the level of external uncertainty; and ii) the strength of reputational concerns.

Economists face increased forecasting difficulty when uncertainty is higher because economic policies and their implications become less predictable. Moreover, higher uncertainty might reduce the information value of political information because more entities and factors influence economic policies. Above all, when facing high uncertainty, economists are less capable of processing and integrating information efficiently (Zhang, 2006). Specifically, when uncertainty is higher, economic agents become overconfident about their private signals and underreact to public signals (Amiram et al., 2018; K. Daniel et al., 1998; K. D. Daniel et al., 2001). Ortoleva and Snowberg (2015) show that overconfidence strengthens partisan

18

identification. Thus, economists with political donations might fail to recognize the drop in value of political information, and if a partisan perceptual screen exists, they are more likely to adopt it. Then, despite the more complex task, economists with political donations might put less effort into collecting additional inputs and rely upon a reduced and less valuable set of private inputs and partisan beliefs, leading to a less accurate assessment of future economic conditions. To test our conjecture, we re-run Eq. (1), including an interaction term between *Connected* [*Indicator*] and uncertainty.

Among the several types of uncertainty, we focus on policy and economic uncertainty. Policy uncertainty arises when changes in the government and political landscape are more likely to occur (e.g., during political elections). According to Pástor and Veronesi (2013), policy uncertainty can attain: i) the occurrence of an economic policy change (i.e., political uncertainty), and ii) its consequences (i.e., outcome uncertainty). We proxy policy uncertainty with an indicator variable (*Presidential Election*) that equals 1 in the 12 months before U.S. presidential elections and 0 otherwise. Presidential elections create uncertainty about the new President, the new majority, and possible adjustments to the political agenda, affecting future macroeconomic outcomes. Although the presence of a two-party system in the U.S. can reduce the uncertainty associated with the economic consequences of the electoral outcome (Snowberg et al., 2007), the differences between the two main political parties (Democratic and Republican) have increased over time (Baker, 2014). Thus, the focus on presidential elections still represents a suitable proxy for policy uncertainty.[20] Economic uncertainty can also affect economists' ability to predict GDP as the GDP outcome is less predictable due to more volatile

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[20] We recognize that the focus on presidential election cycles does not consider variations in policy uncertainty due to alternative events (e.g., mid-term elections or changes in Congress support for the elected President). Thus, we re-run our main analysis using the natural logarithm of the economic policy uncertainty index developed by Baker et al. (2016) for time t as a continuous measure for policy uncertainty. The measure is a monthly index and relies on newspaper references to policy uncertainty, forecaster dispersion measures related to inflation, government purchases, and scheduled tax code provisions. Furthermore, we refine our measure of *Presidential Election* including the 12 months after the presidential election obtaining the same evidence. Our results hold in both cases.

economic and financial conditions. We proxy economic uncertainty using the VIX index (*Financial Stress Index*).[21] Empirical evidence is reported in Table 4 Panel A, Column (1) for policy uncertainty and Column (2) for economic uncertainty.

(Insert Table 4 Panel A around here)

In both columns, we find that the coefficients of *Connected* [Indicator] are still negative and statistically significant. Above all, the coefficients for the interaction terms *Connected* [Indicator] × *Presidential Election*, and *Connected* [Indicator] × *Financial Stress Index* are positive and statistically significant (coef. = 0.966, t-stat= 2.49; coef.= 0.043, t-stat= 2.03, respectively).[22] These results suggest that economists' political donations improve GDP forecast accuracy when policy uncertainty is lower. Nevertheless, the positive effect weakens as policy and economic uncertainty increases. The higher uncertainty reduces the value of the political donations because connected politicians have lower influence over economic policies. However, as private signals proved beneficial in the past, economists become overconfident about the information value, failing to recognize its reduced value. Moreover, because of the partisan perceptual screen, economists might not objectively interpret the information and rely upon a reduced set of inputs in line with their partisan orientation. As the forecasting task is more complex and requires more and better information, economists with political donations are less accurate than their peers.[23]

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[21] In additional untabulated analyses, we use the financial stress index developed by the Federal Reserve Bank of St. Louis as an alternative measure of economic uncertainty and results still hold.

[22] We acknowledge that, as the presidential elections approach, economists might adjust their donation patterns to preserve connections with influential politicians and reduce GDP forecast errors, i.e., a reverse causality bias may exist. We mitigate these reverse causality concerns by exploiting the extent to which the presidential election result is unexpected. Although the timing of presidential elections is known, their outcome is not entirely predictable, especially in the case of elections with small victory margins where the two candidates are very close in the electoral result (Akey, 2015). In this case, political campaign contributions are less likely to have been planned, reducing reverse causality concerns. Thus, we examine whether the effect of *Connected* [Indicator] on GDP forecast accuracy varies depending on the elected President's victory margin. We find that GDP forecast error is higher when victory margin is smaller, and economists are politically connected. Hence, our results hold when the political connection is more unexpected, further dampening endogeneity concerns

[23] Our results might raise doubts on why economists do not recognize the drop in the value of political information in a situation of policy uncertainty and adjust its weight when facing a new episode of policy uncertainty (i.e.,

Then, we investigate economists' motivations and incentives to be accurate due to reputational concerns. We expect the partisan bias to be less likely to unfold when economists have stronger reputational concerns. We consider both economists' expertise and forecasting houses' characteristics. Economists' expertise is measured as the logarithm of the number of years they have worked from their first employment (*Expertise*). We determine *Expertise* looking for economist's bios as disclosed in her LinkedIn profile, manually searching for every economist's name, surname, and employer (i.e., forecasting house).[24,25] Concerning the forecasting houses' characteristics, we follow Laster et al. (1999) and Lamont (2002) according to which financial firms and companies are more concerned with forecast accuracy.[26] Thus, we create an indicator variable (*Non-financial corporate FH*) equal to 1 if the economist's forecasting house is not a financial firm or a company, and 0 otherwise. For example, *Non-financial corporate FH* is equal to 1 in the case of Bank of America, Swiss Re, Ford, and Eaton Corporation; and it is equal to 0 in the case of Deloitte, California State University, and Camilli Economics. To classify the forecasting house, we rely on the organization's profile available in the economist's LinkedIn profile or on the institutional website of the organization.[27] Empirical evidence is reported in Table 4, Panel B, Column (1) for economists' expertise, and Column (2) for forecasting houses' characteristics.

Bayesian behavior). Economists' cognitive biases (e.g., partisan perceptual screen and overconfidence) might be a potential reason for the lack of Bayesian behavior. Moreover, even in the absence of cognitive biases, Bayesian behavior might still not be effective in our setting because different events can trigger uncertainty, and uncertainty might not unfold similarly over time. Thus, although economists repeatedly release GDP forecasts in a situation of uncertainty, future adjustments might not be sufficient to avoid future forecast errors if the next episode of uncertainty is different enough from the previous one.

[24] In this test, the sample is reduced by one third because economists do not always have a LinkedIn profile.

[25] We perform a double scrutiny to validate the data at every step of the process not to misleadingly associate an economist to a specific bio. Indeed, because of namesake there might be multiple possible LinkedIn profiles associable to the same economist. Furthermore, when the information is not available because the economist does not have a LinkedIn profile or he/she has passed away, we look for alternative source of data such as news, employers' websites, and obituaries.

[26] In the Online Appendix, we provide a full description of the methodology adopted to classify the forecasting houses as well as a table with every individual classification.

[27] We were not able to determine the type of forecasting house for 581 observations (corresponding to 3 unique forecasting house). As a result, the sample size in Table 4 Panel B Column 2 is lower than in Table 3. Moreover, in 34.06% of the cases economists work for forecasting houses that are not financial firms or companies.

In Table 4, Panel B. In Column (1), we still find a negative effect of political donation on GDP forecast accuracy (coef. = -1.238, t-stat= -1.84), while the interaction term with expertise is not statistically significant (coef.= 0.284, t-stat= 1.14).[28] Instead, in Column (2), the coefficient for *Connected* ^{Indicator} is negative and statistically significant (coef. = -0.857, t-stat= -4.18). In contrast, the coefficient for the interaction term is positive and significant (coef. = 1.029, t-stat= 2.12), indicating that the information advantage of political donations is reduced when economists do not work for financial firms or companies, i.e., when forecasting houses are less concerned with GDP forecast accuracy. These results suggest that economists are discouraged from adopting the partisan perceptual screen when forecasting houses have greater reputational concerns.[29]

5.2. The role of forecasting houses' political connections

The previous analyses assume that political donations are the only mechanisms for economists to access politicians. This assumption is unlikely to be the case as ample evidence shows that forecasting houses finance political parties to build and maintain political connections (Christensen et al., 2017). The political donations of the forecasting house are likely to affect the association between economists' political donations and GDP forecast accuracy by easing economists' access and interactions with politicians. Then, the negative effect of economists' political donations on GDP forecast accuracy should be stronger when the forecasting house is politically active. However, the political donations of the forecasting house might not be helpful if they reflect forecasting houses' political preferences rather than being a tool to obtain valuable

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[28] Apart from the experience, we run the same set of analyses using both economists' age and education (Ph.D. title). In both cases, there is no significant difference in forecast accuracy confirming that in our sample individual economists' characteristics do not play a significant role in economists' perceptual bias.

[29] In additional untabulated analyses, we inspect the role of reputational concerns in times of uncertainty. We document that the negative effect of the partisan perceptual bias in times of uncertainty is driven by economists with lower experience and working for forecasting houses that are less concerned with forecast accuracy.

information. Under the assumption that political preferences are more likely to drive campaign contributions when the forecasting house mainly finances one political party (i.e., partisan forecasting house), we inspect the role of forecasting houses' political donations by re-running Eq. (1) in three sub-samples: i) forecasting houses without political donations; ii) partisan forecasting houses; iii) non-partisan (or hedging) forecasting houses. Empirical evidence is reported in Table 5 Panel A, Column (1), (2), and (3), respectively.

(Insert Table 5 Panel A around here)

In Table 5 Panel A, the coefficient for *Connected* [Indicator] is not statistically significant in Column (1) (coef. = -0.370, t-stat= -1.52), when forecasting houses do not finance politicians, while the coefficient is negative and statistically significant in Columns (2) and (3) (coef. = -1.235 t-stat= -3.23; coef. = -0.800, t-stat= -2.96, respectively). Coefficients in Columns (1) and (2) are statistically different at 10% level, while the coefficient in Column (3) is not statistically different from Columns (1) and (2). These results suggest that the positive effect of political donations of economists on GDP forecast accuracy hinges upon forecasting house's political donations. However, it also points out that political preferences and partisan bias can play a role given the weak statistical difference in coefficients.

Next, we consider the heterogeneity of forecasting house's political donations. First, we examine whether economists and forecasting houses finance the same political party. Specifically, we re-run Eq. (1) by replacing *Connected* [Indicator] with two dummy variables: *Misaligned Economist*, equal to 1 if both forecasting house and economist donate, but to different political parties, and 0 otherwise; and *Aligned Economist*, which is equal to 1 if the forecasting house and economist mainly finance the same political party, and 0 otherwise. Empirical evidence is reported in Table 5 Panel B.

(Insert Table 5 Panel B around here)

We find that both the coefficient for *Misaligned Economist* and *Aligned Economist* is negative and statistically significant (coef. = -0.424, t-stat= -1.86; coef. = -1.081, t-stat= -5.39). Notably, the coefficient for *Aligned Economist* is greater than the coefficient for *Misaligned Economist* (the difference is statistically significant at 5% level), suggesting that forecast accuracy is higher when economists and forecasting houses donate to the same party.[30] These results are consistent with prior studies (A. Gerber & Green, 1999; Zaller, 1992), suggesting that it is easier for individuals to impound information they consider closer to their political orientation. Above all, they might indicate that a partisan perceptual screen bias exists among economists, but it is conditional on their forecasting house's characteristics and political capital. Untabulated descriptive evidence suggests that, when there is alignment, economists and forecasting houses donate to the political party that controls at least one of the legislative branches. Hence, economists are more likely to perceive the political information received directly or indirectly through the forecasting house as valuable, and, as a result, they are more accurate.

Furtherly, we consider the breadth of forecasting houses' political donations (i.e., number of candidates) and the donations to influential politicians. Because both features tend to be higher when forecasting houses adopt a hedging strategy, we identify four distinct groups also considering forecasting houses' hedging strategy: 1) partisan forecasting house financing fewer (less influential) candidates (i.e., below the sample mean value), 2) partisan forecasting house financing more (more influential) candidates (i.e., above the sample mean value), 3) hedging forecasting house financing fewer candidates, 4) hedging forecasting house financing more candidates. We contend that, if the partisan bias is present, the negative association between GDP forecast accuracy and economist's political donation should be weaker when her

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[30] Interestingly, in untabulated analyses, we also find that the interaction terms with policy and economic uncertainty are positive and statistically significant only for misaligned economists.

forecasting house finances more and many influential individuals from different parties. Indeed, although politically connected economists in a forecasting house with a hedging strategy might benefit from greater availability information, they are also more likely to receive opposite and polarized information. Heterogeneous information makes political connections less valuable and the partisan bias more likely to arise. Empirical evidence for the breadth of forecasting house's political donations is reported in Table 6 Panel A.

(Insert Table 6 Panel A around here)

We find that the coefficient for *Connected* *Indicator* is negative and statistically significant only in Column (1) (coef. = -1.140; t-stat= 2.69) when the forecasting house does not pursue a hedging strategy and finance fewer candidates. In the other columns, the coefficient is either not statistically significant (Column 3 and 4) or positive (Column 2). Notably, the four coefficients are statistically different at the 1% level.

Empirical evidence is similar in Table 6 Panel B when considering the number of influential politicians financed by the forecasting house: politically connected economists are more accurate if they work for non-hedging forecasting houses financing less influential candidates (Column 1), although in this case, the coefficients are not statistically different at the 1% level. Notably, descriptive evidence suggests that, when forecasting houses hedge, economists are misaligned and, hence, they are more likely to discount political information if not aligned with their partisan orientations. In general, these findings suggest that economists rely less on the partisan perceptual screen bias when their forecasting houses hedge less and less heterogeneous candidates are financed, i.e., the information received is potentially less heterogeneous and contradictory.

(Insert Table 6 Panel B around here)

Lastly, we examine the role of forecasting houses' lobby visits. Although lobby visits are a source of information exchange between forecasting houses representatives and politicians, they are also an opportunity for forecasting houses to influence policy outcomes (i.e., regulatory capture tool) (Bertrand et al., 2014; Milyo et al., 2017). We expect that, if a partisan perceptual screen bias exists, the information advantage of political donations is reduced when the forecasting houses undertake lobby visits to shape economic policy outcomes. As forecasting houses can lobby for different reasons, we consider the specific topics discussed during the lobby visits that lobbyists must disclose, according to the Lobbying Disclosure Act. Specifically, we classify the topics into two categories depending on whether lobbyists meet politicians to discuss topics mainly related to the business of the forecasting house (business-related topics) or not (non-business-related topics). For instance, codes 'banking' and 'financial institutions' are classified as strictly business-related activities for financial firms. Instead, we classify '*budget appropriation*', '*government issues*', '*domestic and foreign trade*' as non-business-related activities. In this case, we expect that lobbyists and politicians are more likely to exchange information with macroeconomic implications.

In Table 7, we find that the coefficient for *Connected* [*Indicator*] is positive and statistically significant if economists work for forecasting houses that undertake lobby visits for non-business-related reasons (Column 1). The coefficient is not statistically significant if forecasting houses undertake business-related lobby visits (Column 2), while it is negative and statistically significant when forecasting houses do not undertake lobby visits (Column 3). The coefficients are statistically different at the 1% level. These results confirm that forecasting houses' political connections play an essential role in the association between economists' political donations and GDP forecast accuracy. As forecasting houses might build political connections for reasons other than improving GDP forecast accuracy, economists cannot necessarily access valuable information. Moreover, economists with political donations may not efficiently process the

information because of the partisan perceptual bias. As a result, they may not always be more accurate than peers.

(Insert Table 7 around here)

5.3. Do politicians provide valuable information?

A key assumption of our findings is that politicians provide helpful information to predict macroeconomic trends. This might not be the case if economic policies do not have a material effect on macroeconomic trends or politicians do not have a deep understanding of the macroeconomic implications of their policies. We mitigate this concern by running two tests.

First, we examine whether our findings vary when the political party financed by the economist loses power over economic policies. Specifically, we exploit the 2006 mid-term elections under the Bush Administration (Republican party presidential term). The 2006 mid-term elections resulted in a shift of political power from the Republican party to the Democratic party. Indeed, after the mid-term election, the Democratic party gained the majority of seats in both the House of Representatives and the Senate (along with most of the governorships and state legislatures) (Houston et al., 2014). Thus, in the aftermath of the 2006 mid-term election, economists and forecasting houses connected to the presidency (Republican party) were no longer connected to the political party controlling the legislative branch and influencing the economic policies (Democratic party). Hence, the value of the political information they could obtain through the political connection to the ruling party was inevitably reduced.

To test our conjecture, we limit our sample to the period 2005-2007, and we compare the GDP forecast error of Republican and non-Republican economists before and after the mid-term election, proxied by an indicator variable (*Midterm*) equal to 1 in the 3 months before and the 6 months after the 2006 mid-term elections, and 0 otherwise. As results in the prior section pointed out that the political capital of the forecasting house plays an important role in the association between economists' political donations and GDP forecast accuracy, we conduct

our test both in the whole sample and by distinguishing between Republican and non-Republican forecasting houses. Empirical evidence is reported in Table 8, Column (1) for all forecasting houses, Column (2) for Republican forecasting houses, and Column (3) for non-Republican forecasting houses. In Columns (1) and (3), we do not find significant evidence that Republican economists differ in GDP forecast error both before and after the mid-term election. Instead, in Column (2), we find that Republican economists are more accurate in the period before the 2006 mid-term elections, but their forecasts are less accurate after the mid-term election when the Republican party lost political power. As the ruling party loses influence over economic policies, their political information is less valuable, and the connected economists are not more accurate than the others. Notably, the results are statistically significant only when the forecasting house finances the Republican party confirming that political connections established by the forecasting house have key implications in the association between economists' political donations and GDP forecast accuracy.

(Insert Table 8 around here)

Second, we examine the differences in GDP forecast accuracy between economists with and without political donations around the introduction of policy acts with a direct macroeconomic impact. Specifically, we consider the promulgation of fiscal policies that meet the following two requirements: i) the President supported them, and he was involved in the legislative process; ii) the acts had a meaningful macroeconomic impact by affecting consumption and unemployment (Abo-Zaid, 2014; Auerbach & Hassett, 2005; Chetty & Saez, 2005, 2006; House & Shapiro, 2006; Shapiro & Slemrod, 2003; Taylor, 2011). The two requirements ensure that economists and forecasting houses can obtain valuable information through political donations. We identify four fiscal acts that meet the two requirements.

Then, we consider the period from the 3 months before the first proposal of the act to Congress until the 3 months after the President signs the act into law. By limiting our sample

28

to a short period, we avoid the confounding effects of adjustments in political donations and learning behaviors once the uncertainty due to promulgation is solved. Then, we create two indicator variables: *30 days before introduction*, equal to 1 in the 30 days before the introduction of the act, and 0 otherwise; *After introduction*, equal to 1 in the period after the introduction of the act, and 0 otherwise. Before the act's final promulgation, the legislative process is characterized by continuous mediation and negotiation within and between political parties. The ongoing mediation creates uncertainty about the act's approval, its content, and, above all, its economic implications. The promulgation of the act reduces uncertainty about its content and approval. However, uncertainty still exists as the economic impacts of the acts are unclear and economic agents might have different expectations about the (in)effectiveness of policy changes on the economy. Empirical evidence is reported in Table 9.

(Insert Table 9 around here)

We find that the coefficient for the interaction term *30 days before introduction $\times$ Connected ^{Indicator}* is negative and statistically significant in two out of the four cases. At the same time, the coefficient for the interaction term *After introduction $\times$ Connected ^{Indicator}* is negative and statistically significant in three out of the four cases. Thus, in the period surrounding the President's approval of a policy change, economists with political donations provide more accurate GDP forecasts than their peers, confirming that political donations represent an important source of political information for economists.

5.4. Ruling out alternative explanations

Political donations are not exogenous as economists choose to finance politicians after evaluating benefits (e.g., information advantage) and costs (e.g., financial resources, time to keep relations with politicians, and unwanted external scrutiny and attention, especially during elections). The motivations behind economists' choice to donate are varied and might affect our

29

findings and conclusions. Therefore, we perform a set of analyses to account for the different drivers of economists' political donations.

First, we account for the endogeneity of economists' political donations adopting an instrumental variable approach. We consider two instruments for *Connected* ^{Indicator}. The first instrument is whether the forecasting house has an office in Washington D.C. According to Christensen et al. (2017), forecasting houses closer to Washington D.C. should have fewer difficulties meeting policymakers to obtain political information than forecasting houses that are far away. We conjecture that the closeness to Washington D.C. strengthens economists' incentives to donate. We determine the forecasting house's office presence in Washington D.C. by considering its address. The second instrument is whether changes in regulations on political donations occurred at time t (*Change Regulation*). We expect that regulation changes affect economists' political donations by influencing both their probability and value. In our sample period, electoral reforms and Supreme Court rulings continually changed political donations' cap and form. Notably, both closeness to Washington D.C. and regulation changes are unlikely to be associated with GDP forecast accuracy, if not through *Connected* ^{Indicator}, thereby meeting both requirements to be valid instruments.

Table 10 Column (1) and (2) reports the findings for the estimation of Eq. (1) using the instrumental variable approach. In the first step (Column 1), we find that economists are more likely to finance political parties if the forecasting house is in Washington D.C., in line with Christensen et al. (2017). Moreover, we observe that economists are more likely to finance political parties if a change in regulation occurs.[31] Notably, in the second step of the instrumental variable estimation, we still find a negative and significant coefficient for *Connected* ^{Indicator}.

(Insert Table 10 around here)

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[31] In untabulated analyses, we find that GDP forecasts are more accurate after a change in the regulation, and the improvement is greater for politically connected forecasts. Thus, changes in regulation increase external scrutiny, to which political connected forecasting houses react by putting more effort into the forecasting activity.

Then, we consider the role of social pressures. Although the decision to finance political parties is an individual choice, economists might decide to donate under the pressure of their employer. For instance, Babenko and Zhang (2020) argue and find that CEOs shape their employees' political donations to strengthen the firm's political capital and favor their candidates. Under this perspective, our results might not be due to economists' individual political preferences but to forecasting house' strategy to please the ruling party (i.e., favoritism). To exclude this scenario, we examine differences in GDP forecast error before and after the Presidential Election depending on the political orientation of the economist (Republican vs. Democratic). If political donations of economists do not reflect their respective political orientations, we should find that economists with political donations issue more optimistic forecasts when the financed candidate wins the Presidential elections, regardless of the political orientation. After the presidential election, the period is identified with a dummy variable equal to 1 in the six months following the presidential election, and 0 otherwise. Moreover, we use the signed value of GDP forecast error (FE), as favoritism should lead to an upwards bias.

In untabulated analyses, we find that economists supporting the Democratic party introduce an upward bias, while Republican economists introduce a downward one. The difference is statistically significant, suggesting that Republican and Democratic economists react differently to the affiliated President's election.[32] The heterogeneous reaction attenuates the concerns that our findings are due to forecasting house's pressure over economists to please the winning party, as, in this case, economists should release more optimistic GDP forecasts regardless of the political party supported.

6. Conclusions

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[32] In untabulated analyses, we obtain the same results using $|FE|$ as the dependent variable.

Although GDP forecasts are a prominent source of information in financial markets, the sources of their accuracy are still unclear. We document that economists' political donations improve GDP forecast accuracy, suggesting that they can access valuable political information. Our empirical evidence also suggests that a partisan bias may still be in place and influence economic agents' interpretation of the information, especially during periods of uncertainty and when the forecasting house is less concerned with reputation and more politically active. In this last scenario, economists access more heterogeneous information to make belief disagreements more likely to arise and dampen GDP forecast accuracy. Despite our contribution to the literature, we acknowledge some limitations of our study. First, our sample includes prominent economists that are highly visible and have a long experience in predicting GDP forecasts. Thus, our results may not apply to economists in the early stage of their careers. Future studies can address this limitation by inspecting whether our results vary depending on the economists' seniority and career path. Specifically, scholars could investigate the consequences of issuing less accurate GDP forecasts on career trajectories of junior economists both within the forecasting house and outside (e.g., governmental agencies). Lastly, the flow of information cannot be directly observed. Thus, our evidence hinges on the assumption that political donations increase the possibility for economists to interact with politicians while exposing the economist to the unwanted effects of a partisan perceptual screen. Future research can analyze whether connections to politicians due to prior working experience in governmental agencies also shape GDP forecast accuracy.

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Table 1. Variable description

Aligned Economist	Indicator variable equal to 1 if the economist and its forecasting house finance the same party, and 0 otherwise
Connected ^{Indicator}	Indicator variable equal to 1 if the economist makes a political donation to any political party during the presidential cycle, and 0 otherwise
Connected ^{None}	Indicator variable equal to 1 if the economist makes a political donation and the financed political party does not control Senate or HR, and 0 otherwise
Connected ^{President}	Indicator variable equal to 1 if the economist makes a political donation and the financed political party occupies White House, and 0 otherwise
Connected $^{Senate\ \&\ HR}$	Indicator variable equal to 1 if the economist finances political party(ies) controlling both HR and Senate (i.e., an economist is connected to both branches) and 0 otherwise
Connected $^{Senate\ or\ HR}$	Indicator variable equal to 1 if the economist finances political party(ies) controlling both either HR or Senate (i.e., an economist is controlled to only branches), and 0 otherwise
Expertise	Number of years elapsing from economist's first job as determined in LinkedIn profile.
Economist ability	Mean value of economist's GDP forecast error-based ranks in the prior three periods.
|FE|	The absolute value of economists' quarter ahead GDP growth forecast less the final GDP growth estimate released by the Bureau of Economic Analysis (BEA).
Financial Stress Index	Monthly average of weekly values of Vix index
Forecasting House Connected^{Indicator}	Indicator variable equal to 1 if the forecasting house finances any political party, and 0 otherwise
IMF GDP forecast error	GDP forecast error released by the International Monetary Fund
Investor sentiment index	Investor sentiment index developed by the University of Michigan
Misaligned Economist	Indicator variable equal to 1 if the economist and its forecasting house do not finance the same political party, and 0 otherwise
N Economists	Number of economists releasing GDP forecasts at time t
Nber recession	Indicator variable equal to 1 if there is an economic recession according to the National Bureau of Economic Research (NBER), and 0 otherwise.
No Financial & Corporate FH	Indicator variable equal to 1 if the forecasting house is not a corporation or a financial firm, and 0 otherwise

Presidential Election	Indicator variable equal to 1 in the 12 months before the presidential election, and 0 otherwise
Rep. President	Indicator variable equal to 1 if the elected President belongs to the Republican party, and 0 otherwise.
Sd. Forecasts	The standard deviation of monthly GDP forecasts released by all the economists at time (t)
Second office	Indicator variable equal to 1 if the elected President is in his second term, and 0 otherwise.
Team	Indicator variable equal to 1 if more than one economist is releasing a forecast from the same forecasting house, and 0 otherwise
Unified Government	Indicator variable equal to 1 if the same political party controls HR and Senate, and 0 otherwise.

Table 2. Descriptive statistics

Variables	N	Mean	Median	P25	P50	P75
Aligned Economist	10,888	0.028	0	0	0	0
Connected ^{Amount}	10,888	382.338	0	0	0	0
Connected ^{Indicator}	10,888	0.160	0	0	0	0
Connected ^{None}	10,888	0.037	0	0	0	0
Connected $^{Senate \& HR}$	10,888	0.056	0	0	0	0
Connected $^{Senate\ or\ HR}$	10,888	0.068	0	0	0	0
Connected ^{President}	10,888	0.060	0	0	0	0
Economist ability	10,888	31.739	31	21.167	31	42
Expertise	7,441	22.720	23	14	23	32
|FE|	10,888	2.299	1.200	0.500	1.200	2.230
Financial Stress Index	10,888	-0.013	-0.344	-0.648	-0.344	0.100
Forecasting House Connected ^{Indicator}	10,888	0.521	1	0	1	1
IMF GDP forecast error	10,888	0.372	0	0	0	0
Investor sentiment index	10,888	83.763	86.9	74.3	86.9	93.7
Misaligned Economist	10,888	0.133	0	0	0	0
N Economists	10,888	68.763	64	62	64	81
Nber Recession	10,888	0.127	0	0	0	0
No Financial & Corporate FH	10,307	0.341	0	0	0	1
Presidential Election	10,888	0.312	0	0	0	1
Rep. President	10,888	0.549	1	0	1	1
Sd. Forecasts	10,888	0.876	0.610	0.506	0.610	0.816
Second office	10,888	0.450	0	0	0	1
Team	10,888	0.212	0	0	0	0
Unified Government	10,888	0.670	1	0	1	1

This table reports the descriptive statistics of variables used to analyze the forecasting error |FE| determinants at the economist level. The variables are reported in alphabetical order. The total number of observations is equal to 10,880. Definitions of all the variables are reported in Table 1.

Table 3: GDP forecast error and economists' political donations

Dependent Variable:	Pred Sign.	*|FE|* (1)	*|FE|* (2)	*|FE|* (3)
Connected [Indicator]	-	-0.569***		
		(-3.05)		
Connected [Senate & HR]	-		-1.285***	-1.797***
			(-5.96)	(-7.86)
Connected [Senate or HR]	-		-0.110	-0.162
			(-0.53)	(-0.90)
Connected [President]	?			-0.994***
				(-2.88)
Connected [Senate & HR] *x Connected* [President]	?			2.512***
				(5.21)
Connected [Senate or HR] *x Connected* [President]	?			1.847***
				(4.08)
Connected [None]			-0.640**	-0.238
			(-2.26)	(-0.86)
Forecasting House Connected [Indicator]		-0.157	-0.157	-0.076
		(-0.38)	(-0.39)	(-0.21)
Team		-0.159	-0.172	-0.143
		(-0.71)	(-0.79)	(-0.62)
Sd. Forecasts		2.131***	2.128***	2.128***
		(18.58)	(18.66)	(18.58)
N Economists		0.041***	0.038***	0.042***
		(6.27)	(5.81)	(5.65)
Second office		-0.682***	-0.661***	-0.553***
		(-6.45)	(-6.43)	(-5.63)
Unified Government		-2.581***	-2.411***	-2.445***
		(-16.87)	(-15.33)	(-14.88)
Rep. President		-1.247***	-1.229***	-1.246***
		(-6.35)	(-6.34)	(-6.36)
Nber recession		6.789***	6.832***	6.902***
		(13.31)	(13.36)	(13.23)
Economist ability		0.012**	0.012**	0.012**
		(2.25)	(2.24)	(2.27)
IMF GDP forecast error		0.018	0.017	0.015
		(0.70)	(0.65)	(0.58)
Investor sentiment index		0.129***	0.129***	0.128***
		(10.26)	(10.25)	(10.28)
Time Trend		Yes	Yes	Yes
Economists FE		Yes	Yes	Yes
Forecasting house FE		Yes	Yes	Yes
Std. Errors clustered at the pair level		Yes	Yes	Yes
Observations		10,888	10,888	10,888
Adj R-squared		0.49826	0.49939	0.50071

This table presents the OLS regression results of GDP forecast error on economists' political donations. The dependent variable |FE| is the absolute value of an economist's 1-quarter ahead GDP growth forecast less the final GDP growth estimate released by the Bureau of Economic Analysis (BEA). Column 1 presents the result when economists are connected to any political party through individual donations. Column 2 reports the result when economists are politically connected to the party throughout their donations, and the financed party controls both House and Senate or just one of these. Definitions of all the other variables are reported in Table 1. All columns include time trends, economists, and forecasting house fixed effects. Because of the inclusion of both economists' and forecasting houses' fixed effects, the interception is not displayed; but it is included in the models. *p < .10, **p < .05, ***p < .01.

Table 4 - Panel A: GDP forecast error and economists' political donations – The role of uncertainty

Dependent Variable:	Pred Sign.	$\|FE\|$ (1)	$\|FE\|$ (2)
Connected [Indicator]	-	-0.966***	-1.472***
		(-3.94)	(-3.24)
Connected [Indicator] × *Presidential Election*	+	0.966**	
		(2.49)	
Connected [Indicator] × *Financial Stress Index*	+		0.043**
			(2.03)
Presidential Election		-0.144	
		(-1.47)	
Financial Stress Index			-0.011
			(-1.23)
Forecasting House Connected [Indicator]		-0.185	-0.127
		(-0.44)	(-0.31)
Team		-0.143	-0.141
		(-0.63)	(-0.57)
Sd. Forecasts		2.120***	2.131***
		(18.33)	(19.41)
N Economists		0.044***	0.043***
		(6.30)	(6.83)
Second office		-0.685***	-0.723***
		(-6.53)	(-8.00)
Unified Government		-2.591***	-2.575***
		(-16.63)	(-15.75)
Rep. President		-1.263***	-1.283***
		(-6.20)	(-7.11)
Nber recession		6.762***	6.824***
		(13.16)	(14.95)
Economist ability		0.012**	0.012**
		(2.27)	(2.26)
IMF GDP forecast error		0.019	0.019
		(0.72)	(0.69)
Investor sentiment index		0.129***	0.128***
		(10.20)	(8.61)
Time trend		Yes	Yes
Economist FE		Yes	Yes
Forecasting house FE		Yes	Yes
Std. Errors clustered at the pair level		Yes	Yes
Observations		10,888	10,888
Adj R-squared		0.49946	0.4991

This table presents the OLS regression results of GDP forecast error on economists' political donations conditional on policy (Presidential Election) and economic (Financial Stress Index) uncertainty. Columns 1 presents the results of forecast error ($\|FE\|$) conditional on economists' political connection and policy uncertainty (Presidential Election), i.e., in the 12 months before the election of the U.S. President. Column 2 reports the results of forecast error ($\|FE\|$) conditional on economists' political connection and economic uncertainty (Financial Stress Index), as proxied by the VIX index. Definitions of all the other variables are reported in Table 1. All columns include time trends, economists, and forecasting house fixed effects. Because of the inclusion of both economists' and forecasting houses' fixed effects, the interception is not displayed; but it is included in the models. *p < .10, **p < .05, ***p < .01.

Table 4 Panel B: GDP forecast error and economists' political donations - The role of reputational concerns

Dependent Variable:		*|FE|*	*|FE|*
	Pred Sign.	(1)	(2)
Connected [Indicator]	-	-1.238*	-0.857***
		(-1.84)	(-4.18)
Connected [Indicator] × *Expertise*	+	0.284	
		(1.14)	
Connected [Indicator] × *Non-financial corporate FH*	+		1.029**
			(2.12)
Expertise		-0.655***	
		(-3.55)	
Forecasting House Connected [Indicator]		-0.524	-0.122
		(-0.88)	(-0.29)
Team		-0.065	-0.183
		(-0.27)	(-0.68)
Sd. Forecasts		2.329***	2.137***
		(18.79)	(18.48)
N Economists		0.043***	0.041***
		(5.29)	(5.89)
Second office		-0.905***	-0.692***
		(-6.77)	(-6.21)
Unified Government		-2.694***	-2.587***
		(-14.69)	(-16.50)
Rep. President		-1.713***	-1.268***
		(-6.96)	(-6.05)
Nber recession		7.503***	6.907***
		(11.68)	(12.79)
Economist ability		0.012*	0.013**
		(1.91)	(2.32)
IMF GDP forecast error		0.032	0.016
		(1.01)	(0.61)
Investor sentiment index		0.154***	0.131***
		(9.55)	(9.76)
Time Trend		Yes	Yes
Economist FE		Yes	Yes
Forecasting house FE		Yes	Yes
Std. Errors clustered at the pair level		Yes	Yes
Observations		7,247	10,307
Adjusted R-squared		0.537	0.505

This table presents the OLS regression results of GDP forecast error on economists' political donations conditional on economists' and forecasting houses' reputational concerns. Column 1 presents the result of forecast error (|FE|) conditional on economists' political connection (Connected [Indicator]) and the number of working years (Expertise) of the economist. Column 2 reports the forecast error results (|FE|) conditional on economists' political connection (Connected [Indicator]) and forecasting house not being a corporation or financial firm. Definitions of all the other variables are reported in Table 1. All columns include time trend, and economists and forecasting house fixed effects. Because of the inclusion of both economists' and forecasting houses' fixed effects, the interception is not displayed; but it is included in the models. *p < .10, **p < .05, ***p < .01.

Table 5 Panel A: GDP forecast error and economists' political donations - The moderating role of FH's political strategy

	Pred Sign.	FH without connection	Politically Hedged No FH	Politically Hedged Yes FH
Dependent Variable:		*|FE|*	*|FE|*	*|FE|*
		(1)	(2)	(3)
Connected *Indicator*	0; -; -	-0.370	-1.235***	-0.800***
		(-1.52)	(-3.23)	(-2.96)
Team		0.338	-0.536	-1.604*
		(0.94)	(-1.34)	(-1.89)
Sd. Forecasts		2.276***	1.741***	2.127***
		(46.39)	(24.15)	(34.57)
N Economists		0.058***	0.039**	0.019
		(4.30)	(1.98)	(1.05)
Second office		-0.733***	-0.660***	-0.723***
		(-6.66)	(-4.19)	(-4.95)
Unified Government		-2.823***	-2.533***	-2.061***
		(-16.91)	(-10.28)	(-8.34)
Rep. President		-1.391***	-1.044***	-1.141***
		(-9.06)	(-4.78)	(-5.33)
Nber recession		7.056***	6.874***	6.883***
		(38.48)	(26.65)	(29.49)
Economist ability		0.003	0.010**	0.026***
		(1.02)	(2.07)	(5.69)
IMF GDP forecast error		-0.012	-0.039	0.078
		(-0.24)	(-0.57)	(1.31)
Investor sentiment index		0.141***	0.112***	0.122***
		(19.78)	(11.81)	(13.70)
P-value for difference			0.28	
Time Trend		Yes	Yes	Yes
Economist FE		Yes	Yes	Yes
Forecasting house FE		Yes	Yes	Yes
Std. Errors clustered at the pair level		Yes	Yes	Yes
Observations		5,214	2,423	3,258
Adjusted R-squared		0.525	0.476	0.51

This table presents the OLS regression results of GDP forecast error on economists' political donations conditional on whether forecasting houses do not donate (Column 1), donate but without pursuing a hedging strategy (Column 2), and donate using a hedging strategy (Column 3). Definitions of all the other variables are reported in Table 1. All columns include time trends, economists, and forecasting house fixed effects. Because of the inclusion of both economists' and forecasting houses' fixed effects, the interception is not displayed; but it is included in the models. *p < .10, **p < .05, ***p < .01.

Table 5 Panel B: GDP forecast error and economists' political donations - Misaligned vs. aligned economists

Dependent Variable:		*|FE|*
	Pred Sign.	(1)
Misaligned Economist	-	-0.424*
		(-1.86)
Aligned Economist	-	-1.081***
		(-5.39)
Forecasting House Connected [Indicator]		-0.020
		(-0.05)
Team		-0.111
		(-0.49)
Sd. Forecasts		2.127***
		(18.48)
N Economists		0.041***
		(6.18)
Second office		-0.679***
		(-6.37)
Unified Government		-2.589***
		(-16.95)
Rep. President		-1.258***
		(-6.42)
Nber recession		6.788***
		(13.33)
Economist ability		0.012**
		(2.24)
IMF GDP forecast error		0.018
		(0.70)
Investor sentiment index		0.129***
		(10.23)
Time Trend		Yes
Economist FE		Yes
Forecasting house FE		Yes
Std. Errors clustered at the pair level		Yes
Observations		10,888
Adj R-squared		0.498

This table presents the OLS regression results of GDP forecast error on politically aligned or misaligned economists with their forecasting houses. There are three possible scenarios for economists making political donations: none, to the same political donations of their forecasting houses, to a different party compared with the forecasting house. Therefore, two dummy variables proxy these scenarios: Aligned Economist and Misaligned Economist, respectively. Definitions of all the other variables are reported in Table 1. All columns include time trends, economists, and forecasting house fixed effects. Because of the inclusion of both economists' and forecasting houses' fixed effects, the interception is not displayed; but it is included in the models. *p < .10, **p < .05, ***p < .01.

Table 6 Panel A: GDP forecast error and forecasting houses' hedging strategy – Number of financed politicians

Group:	Pred. Sign.	Below average N candidates - Politically Hedged No FH	Above average N candidates - Politically Hedged No FH	Below average N candidates - Politically Hedged Yes FH	Above average N candidates - Politically Hedged Yes FH
		$|FE|$	$|FE|$	$|FE|$	$|FE|$
Dependent Variable:		(1)	(2)	(3)	(4)
Connected [Indicator]	-; ?; ?; ?	-1.140***	1.035***	-0.366	-0.856
		(-2.696)	(3.919)	(-0.690)	(-1.637)
P-value for difference			<0.01		
Controls		Yes	Yes	Yes	Yes
Time Trend		Yes	Yes	Yes	Yes
Economist FE		Yes	Yes	Yes	Yes
Forecasting house FE		Yes	Yes	Yes	Yes
Std. Errors clustered at the pair level		Yes	Yes	Yes	Yes
Observations		1,888	443	1,729	1,446
Adjusted R-squared		0.46	0.445	0.535	0.513

This table presents the OLS regression results of GDP forecast error on economists' political donations when employed by a forecasting house that donates to several politicians above/below the average and pursues a hedging strategy. Therefore, there are four possible scenarios for forecasting houses in a 2x2 matrix. First, forecasting houses not pursuing a hedging strategy and financing several politicians below (Column 1) and above (Column 2) the average. Second, forecasting houses pursuing a hedging strategy and financing several politicians below (Column 3) and above (Column 4) the average. Definitions of all the other variables are reported in Table 1. All columns include time trends, economists, and forecasting house fixed effects. Because of the inclusion of both economists' and forecasting houses' fixed effects, the interception is not displayed; but it is included in the models. *p < .10, **p < .05, ***p < .01

Table 6 Panel B: GDP forecast error and forecasting houses' hedging strategy – Influential politicians

Group:	Pred. Sign.	Below average Influential Politicians - Politically Hedged No FH	Above average Influential Politicians - Politically Hedged No FH	Below average Influential Politicians - Politically Hedged Yes FH	Above average Influential Politicians - Politically Hedged Yes FH
		|FE|	|FE|	|FE|	|FE|
Dependent Variable:		(1)	(2)	(3)	(4)
Connected [Indicator]	-; ?; ?; ?	-0.884***	0.832	-0.419	-0.508
		(-4.036)	(0.388)	(-0.916)	(-0.651)
P-value for difference			<0.01		
Controls		Yes	Yes	Yes	Yes
Time Trend		Yes	Yes	Yes	Yes
Economist FE		Yes	Yes	Yes	Yes
Forecasting house FE		Yes	Yes	Yes	Yes
Std. Errors clustered at the pair level		Yes	Yes	Yes	Yes
Observations		2,022	401	1,866	1,392

This table presents the OLS regression results of GDP forecast error on economists' political donations when employed by a forecasting house that donates to several influential politicians above/below the average and pursues a hedging strategy. Therefore, there are four possible scenarios for forecasting houses in a 2x2 matrix. First, forecasting houses not pursuing a hedging strategy and financing several influential politicians below (Column 1) and above (Column 2) the average. Second, forecasting houses pursuing a hedging strategy and financing several influential politicians below (Column 3) and above (Column 4) the average. Definitions of all the other variables are reported in Table 1. All columns include time trends, economists, and forecasting house fixed effects. Because of the inclusion of both economists' and forecasting houses' fixed effects, the interception is not displayed; but it is included in the models. *p < .10, **p < .05, ***p < .01.

Table 6 Panel B: GDP forecast error and forecasting houses' hedging strategy – Influential politicians

Group:	Below average Influential Politicians - Politically Hedged No FH	Above average Influential Politicians - Politically Hedged No FH	Below average Influential Politicians - Politically Hedged Yes FH	Above average Influential Politicians - Politically Hedged Yes FH
	(1)	(2)	(3)	(4)
Dependent Variable:	$|FE|$	$|FE|$	$|FE|$	$|FE|$
Connected [Indicator]	-0.884***	0.832	-0.419	-0.508
	(-4.036)	(0.388)	(-0.916)	(-0.651)
P-value for difference		<0.01		
Controls	Yes	Yes	Yes	Yes
Time Trend	Yes	Yes	Yes	Yes
Election Type	Yes	Yes	Yes	Yes
Economist FE	Yes	Yes	Yes	Yes
Forecasting house FE	Yes	Yes	Yes	Yes
Std. Errors clustered at the pair level	Yes	Yes	Yes	Yes
Observations	2,022	401	1,866	1,392
Adjusted R-squared	0.482	0.425	0.552	0.464
% Connected [Senate & HR] (over economists with political donation)	34.08%	59.87%	23.44%	52.91%
% Connected [Senate or HR] (over economists with political donation)	58.74%	30.26%	55.58%	26.70%
% Misaligned economists (over economists with political donation)	16.14%	25.00%	100%	100%

This table presents the OLS regression results of GDP forecast error on economists' political donations when employed by a forecasting house that donates to several influential politicians above/below the average and implements a hedging strategy in electoral donations or less. Therefore, there are four possible scenarios for forecasting houses in a 2x2 matrix. First, forecasting houses *not pursuing* a hedging strategy and financing several influential politicians below (Column 1) and above (Column 2) the average. Second, forecasting houses *pursuing* a hedging strategy and financing several influential politicians below (Column 3) and above (Column 4) the average. Definitions of all the other variables are reported in Table 1. All columns include time trend, presidential election cycle, and economists and forecasting house fixed effects. Because of the inclusion of both economists' and forecasting houses' fixed effects, the interception is not displayed; but it is included in the models. *p < .10, **p < .05, ***p < .01.

Table 7: GDP forecast error and the role of forecasting houses' lobby visits

Group:	Pred. Sign.	Non-business related lobby visits	Business-related lobby visits	No lobby visits
Dependent Variable:		*|FE|*	*|FE|*	*|FE|*
		(1)	(2)	(3)
Connected [Indicator]	?	4.563**	-0.235	-0.657***
		(2.22)	(-0.43)	(-3.79)
Forecasting House Connected [Indicator]		0.327	-0.306	-0.226
		(0.64)	(-0.90)	(-0.82)
Team		3.704***	-3.540**	-0.122
		(4.16)	(-2.04)	(-0.73)
Sd. Forecasts		2.813***	1.612***	2.094***
		(13.07)	(5.78)	(29.20)
N Economists		-0.044	0.080	0.042***
		(-1.19)	(1.37)	(4.92)
Second office		-2.358***	-0.697**	-0.659***
		(-3.05)	(-2.05)	(-7.92)
Unified Government		-1.109*	-3.632***	-2.543***
		(-1.94)	(-3.90)	(-14.48)
Rep. President		-0.609	-1.582***	-1.222***
		(-0.43)	(-2.61)	(-9.28)
Nber recession		6.607***	9.459***	6.601***
		(4.32)	(7.26)	(18.66)
Economist ability		0.030**	0.024*	0.010***
		(2.41)	(1.66)	(3.33)
IMF GDP forecast error		-0.020	-0.024	0.026
		(-0.14)	(-0.17)	(0.68)
Investor sentiment index		0.180***	0.204***	0.125***
		(4.24)	(5.79)	(14.78)
P-value for difference			0.02	
Time Trend		Yes	Yes	Yes
Economist FE		Yes	Yes	Yes
Forecasting house FE		Yes	Yes	Yes
Robust Std. Errors		Yes	Yes	Yes
Observations		461	694	9,733
Adjusted R-squared		0.668	0.553	0.496

This table presents the results of the OLS regression of GDP forecast error on economists' political connections in subsamples defined using forecasting houses' lobby activities as a partitioning variable. We identify three possible scenarios: in Column 1, we consider economists working for a forecasting house undertaking non-business related lobby visits; in Column 2, we include economists working for a forecasting house undertaking business-related lobby visits; while in Column 3, we consider economists working for a forecasting house that does not undertake any lobby visit. Definitions of all the other variables are reported in Table 1. All columns include time trends, economists, and forecasting house fixed effects. Because of the inclusion of both economists' and forecasting houses' fixed effects, the interception is not displayed; but it is included in the models. *p < .10, **p < .05, ***p < .01.

Table 8: GDP forecast error driven by economists' and forecasting houses political orientation

Group:	Pred. Sign.	Full	Republican FH=1	Republican FH=0
Dependent Variable:		*|FE|*	*|FE|*	*|FE|*
		(1)	(2)	(3)
Republican Economist	-; -; 0	-0.211	-0.665***	0.083
		(-1.24)	(-2.77)	(0.58)
Republican Economist × Midterm	+; +; 0	0.252	0.531***	-0.108
		(1.21)	(2.64)	(-0.54)
Midterm		0.127	0.347	0.110
		(0.52)	(0.96)	(0.35)
Controls		Yes	Yes	Yes
Economist FE		Yes	Yes	Yes
Forecasting house FE		Yes	Yes	Yes
Robust Std. Errors clustered		Yes	Yes	Yes
Observations		508	182	328
Adj R-squared		0.359	0.539	0.123

This table presents the results of the OLS regression of GDP forecast error of economists' political connections surrounding the occurrence of the 2006 mid-term elections, distinguishing between economists making political donations to either the Republican or the Democratic Party (Republican Economist). The sample is limited to the period 2005–2007. We consider three possible scenarios: in Colum 1, we consider economists working for all forecasting houses with and without political donations; in Column 2, we only consider forecasting houses donating to the Republican Party, while in Column 3, we only consider forecasting houses donating to the Democratic Party. Definitions of all the other variables are reported in Table 1. All columns include time trends, economists, and forecasting house fixed effects. Because of the inclusion of both economists' and forecasting houses' fixed effects, the interception is not displayed; but it is included in the models. *p < .10, **p < .05, ***p < .01.

Table 9: GDP forecast accuracy surrounding specific legislative acts with economic policy consequences

Act:	Pred. Sign.	Obama 1	Obama 2	Obama 3	Trump
Dependent Variable:		*|FE|*	*|FE|*	*|FE|*	*|FE|*
		(1)	(2)	(3)	(4)
Connected ^{Indicator}	?	0.257		0.534*	
		(0.74)		(1.95)	
30 days before introduction × *Connected* ^{Indicator}	-	-0.598*	-0.089	-0.198	-0.230**
		(-1.75)	(-0.23)	(-0.89)	(-2.07)
After introduction × *Connected* ^{Indicator}	-	-0.623*	-0.200	-0.566***	-0.242**
		(-1.97)	(-0.68)	(-3.54)	(-2.40)
Controls		Yes	Yes	Yes	Yes
Time Trend		Yes	Yes	Yes	Yes
Economist FE		Yes	Yes	Yes	Yes
Forecasting house FE		Yes	Yes	Yes	Yes
Robust Std. Errors clustered		Yes	Yes	Yes	Yes
Observations		260	693	494	255
Adjusted R-squared		0.743	0.614	0.255	0.605

This table presents the results of the OLS regression of GDP forecast error of economists' political connections surrounding the approval of specific acts associated with economic policy changes approved during President Obama's and President Trump's administrations. We consider whether economists make political donations (Connected ^{Indicator}) and contribute to the U.S. President's political party (Connected ^{President}). We measure the uncertainty of the acts considering two periods: i) the thirty days before the bill is proposed by one or more sponsors (30 days before introduction); and the period after the introduction of the bill (three months), i.e., it is signed by the President. In Columns 1 and 2, we report the results for the H.R.1 - American Recovery and Reinvestment Act of 2009 (Obama 1). In Columns 3 and 4, we report the results for the H.R.4853 - Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Obama 2). In Columns 5 and 6, we report the results for the H.R.8 - American Taxpayer Relief Act of 2012 (Obama 3). In Columns 7 and 8, we report the results for the H.R.1 - An Act to provide for reconciliation according to titles II and V of the concurrent resolution on the budget for the fiscal year 2018. Definitions of all the other variables are reported in Table 1. All columns include time trends, economists, and forecasting house fixed effects. Because of the inclusion of both economists' and forecasting houses' fixed effects, the interception is not displayed; but it is included in the models. *p < .10, **p < .05, ***p < .01.

Table 10: Instrumental variable estimation for the endogeneity of political connections

Specification:	Pred. Sign.	First Step	Second Step
Dependent Variable:		*Connected* ^{Indicator}	*|FE|*
		(1)	(2)
Washington D.C.	+	1.241***	
		(11.77)	
Change Regulation	+	0.174***	
		(4.41)	
Fit. Connected ^{Indicator}	-		-0.599***
			(-3.21)
Controls		Yes	Yes
Time Trend		Yes	Yes
Economist FE		Yes	Yes
Forecasting house FE		Yes	Yes
State FE		Yes	No
Observations		9,167	10,360
Adj R-squared		0.08	0.509

This table presents the results of the IV estimation to account for the endogeneity of economists' political connections. Column 1 shows the results of the first stage where economists' political connections (Connected^{Indicator}) are regressed on changes in the regulation on electoral donations (Change Regulation), the distance between the forecasting house and the US Congress, and control variables. Column 2 presents the second stage results where |FE| is regressed on the fitted value of economists' political connections from Column 1 (Fit. Connected^{Indicator}). Definitions of all the other variables are reported in Table 1. All columns include time trends, economists, and forecasting house fixed effects. Because of the inclusion of both economists' and forecasting houses' fixed effects, the interception is not displayed; but it is included in the models. *p < .10, **p < .05, ***p < .01.