

Opinion **Free Lunch**

Polarisation paralyses the US economy

Political divergence on Capitol Hill is trickling down to corporate America

JOEL SUSS



US businesses and their employees are becoming increasingly partisan, which has likely caused a reduction in dealmaking between politically divergent firms © Angela Weiss/AFP/Getty Images

Joel Suss

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Hello Free Lunch readers. The US has entered a new era of intense political partisanship — “compromise” has become a dirty word for many supporters and politicians of either party. Witness the ongoing government shutdown, now nearing its fifth week.

Political polarisation is a long-standing trend in the US that precedes the Trump era (though the current president is [undoubtedly](#) and [gleefully](#) eroding norms further).

More Americans now view “the other side” in increasingly negative terms, something researchers call “affective” polarisation. In 1980, survey respondents rated the

opposing party an average of 48 on a scale of 0-100. By 2024 this had [more than halved](#). (Moreover, a growing contingent of Americans actively dislike and distrust both main parties and their supporters.)

Divisions between voters are reflected in — or, perhaps, led by — elected representatives. The ideological distance between Democratic and Republican members of Congress has widened to a chasm.

Political polarisation has been rising in the US

Average rating of own versus rival political party

Party ▼

☐ Own-party feeling ☐ Rival-party feeling

FINANCIAL TIMES

Source: [American National Election Studies](#)
FT graphic: Joel Suss

Congress has become far more ideologically polarised in recent decades

Distribution of ideological leanings by party

☐ Democrat ☐ Republican

☐ Democrat ☐ Republican

We might be tempted to dismiss rising polarisation from an economic perspective — after all, businesses focused on the bottom line should be above the political fracas.

But unfortunately it matters, via multiple channels. The economic costs of polarisation — to say nothing of its societal and democratic implications — are high.

First is the effect of governmental paralysis. The latest shutdown might prove to be the lengthiest and costliest. Oxford Economics estimates shutdowns cost a hefty 0.1 to 0.2 percentage points of GDP growth per week, or roughly \$200bn so far this episode.

Another sign of dysfunction is the increasing use of the filibuster, which when invoked in effect kills legislation in the US Senate. (Many bills are simply not brought to the floor in anticipation of a filibuster, and so a tally of so-called cloture votes understates its actual impact.) This leaves important policy problems unaddressed.

The use of filibusters in the US Senate has risen dramatically alongside rising political polarisation

Number of votes for cloture* by congress

FINANCIAL TIMES

Source: US Senate • *Cloture is the technical term for votes requiring a majority of 60 votes in the senate.
FT graphic: Joel Suss

Immigration was, until fairly recently, a source of bipartisan agreement in the US. Politicians from both parties were for years typically pro-immigration (after having been anti-immigration for decades). But since roughly the turn of the millennium, Republicans began to become much more negative on the issue, a trend hastened by the 2016 election. Trump now appears to be the most anti-immigrant US president in more than a century, according to [analysis of the last 140 years of congressional and presidential speeches](#).

Sharply curtailed immigration costs the US economy, not only via labour supply and aggregate demand, but also because of the likely implications on innovation and

productivity. A recent study found that migrants to the US [disproportionately contribute](#) to innovation, and the key lesson from this year's Nobel Prize in economics was the [importance of innovation](#) for sustained economic growth.

Democrats and **Republicans** have become polarised on the issue of immigration in recent decades

Average tone of immigration speeches in congress by party

% pro - % anti speeches

Partisan conflict also damages [private investment](#). The logic is simple: polarised legislatures lead to high policy uncertainty, causing corporations to hesitate and delay investment decisions. Consider the [whipsawing of federal support](#) for [green industrial projects](#) between the Biden and Trump administrations.

Luckily, the US is in the midst of an artificial intelligence investment boom, which

paints a [rosy aggregate picture](#). (It will turn unlucky if and when the [bubble bursts](#).)

Take the data centre capital expenditure away, and private fixed investment looks far more paltry. Indeed, without investment in information processing equipment and software — where the boom is most manifest — fixed investment declined since the second quarter of 2024, according to the Bureau of Economic Analysis.

US private investment excluding information AI-boom spending has been negative in recent quarters

Contributions to fixed private investment by category (percentage points)

Solid line is quarterly annualised change in private fixed investment (%)

☐ Private fixed investment ☐ Information processing equipment & software ☐ Other

FINANCIAL TIMES

Source: BEA • Covid-related investment trough and peaks are truncated
FT graphic: Joel Suss

Affective polarisation is also no longer left at the business door.

Companies and their employees are becoming [increasingly](#) partisan, evident in political donations and stated values. This has likely caused a [dramatic reduction in](#)

[mergers](#) between “politically divergent” firms. It is simply more difficult and costly to integrate companies that differ substantially in political orientation. And there is a wider economic cost to forgoing dealmaking that would yield synergies.

The infection has [spread to venture capital](#), where investments have increasingly aligned on political terms.

Political polarisation is increasingly getting in the way of US corporate mergers

Average political divergence, four-year moving average

FINANCIAL TIMES

Source: Duchin, Farroukh, Harford, Patel (2023) , "[The Economic Effects of Political Polarization: Evidence from the Real Asset Market](#)" • Political divergence measures the distance between firms based on political campaign contributions
FT graphic: Joel Suss

There's more. As Tej noted in [his July 6 newsletter](#), polarisation affects economic outcomes via expectations. Economic sentiment fluctuates on partisan lines depending on who occupies the White House. This is true for both [households](#) and [businesses](#), and expectations drive [economically meaningful decisions](#).

OK, after laying out all the gloom, how about some hope? First, the US has managed to reduce intense partisanship before. Taking a longer-term view, the distance between the average left-right position reached a nadir in the postwar period, before rapidly rising to where it is today.

Second, while affective polarisation among Americans has risen, the public is actually not as ideologically polarised as Congress, even though they [perceive themselves](#) to be. There happens to be quite a lot of agreement. For example, substantial majorities agree on steps to [address climate change](#) and restrict [access to guns](#).

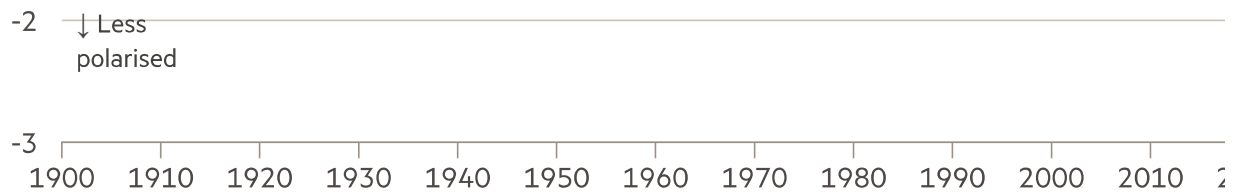
We also have a fairly good understanding of what is driving political polarisation. One is media — lately the social variant, but before then, talk radio and cable news. The American electoral system, with primaries that favour extreme candidates, is another important source.

While this is not just an American phenomenon, the US is an outlier for the [speed of polarisation](#), in part because of the structure and particularities of its democracy. The US Supreme Court decision to equate unlimited campaign spending money with free speech did not help.

Political polarisation is rising in many countries, but relatively faster in the US

Standardised political polarisation score





FINANCIAL TIMES

Source: [V-Dem](#) • Europe score is population-weighted average

As the political scientist Francis Fukuyama put it in the Financial Times last year, “all of these problems could be solved through reform”. That seems improbable for the foreseeable. Improbable, but not impossible.

Send your thoughts to freelunch@ft.com or joel.suss@ft.com.

Food for thought

A timely [new working paper](#) uses detailed data on US wine imports to look at how the 2019-2021 tariffs on European vintages fed through the supply chain to consumers. Multiple stages of domestic mark-ups meant the final pass-through exceeded 100 per cent.

Free Lunch on Sunday is edited by Harvey Nriapia

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