



The Cost of Polarization

Economics I | Minnerva Zou



I. The Cost of Political Polarization

Example 1.

COVID-19

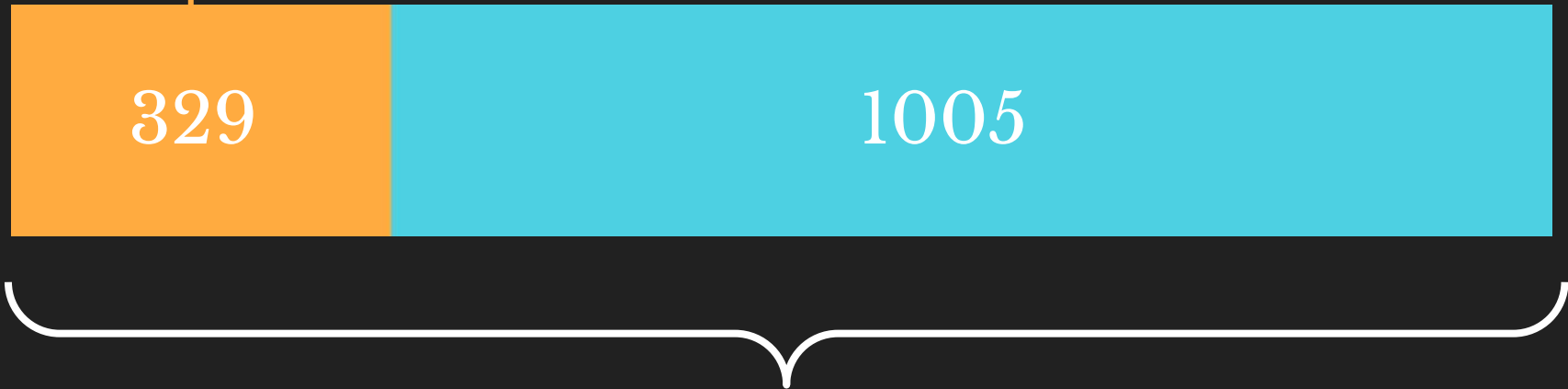
- 9.2% rise in unemployment from February to May 2020 due to COVID-19 [MZ23]
- Loss in small business revenue
- Economic policies during COVID-19 are more driven by political party identification than local health conditions [MZ15]

Example 2.

2018 U.S. Government Shutdown

- Longest U.S. government shutdown in history
- Result of polarization between Congress and the Presidency
- Federal workers were delayed \$9 billion in compensation [MZ16]
- GDP decreased by 0.2% due to shutdown in the first quarter of 2019 [MZ16]

- Affected **\$329 billion** in total discretionary funding (TDF) for 2019 [MZ16]
 - (~25% of the US. government's TDF)



TDF in 2019: **\$1.334 trillion** [MZ17]

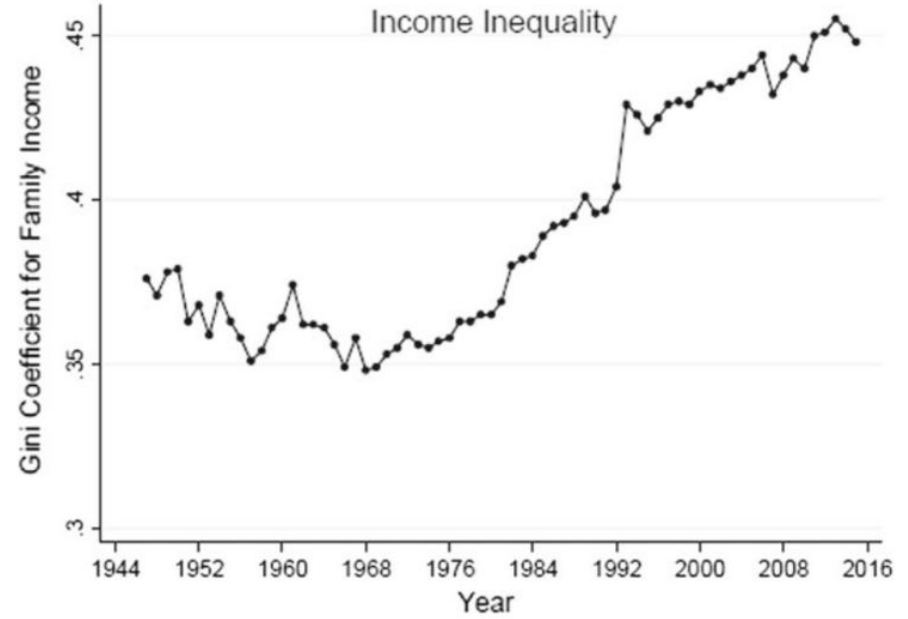
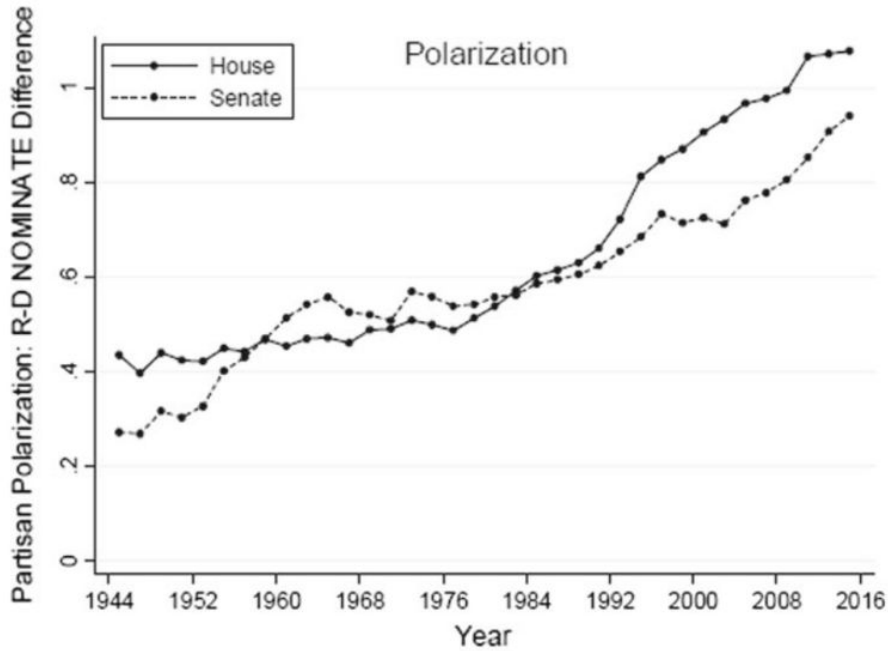



Figure 1. Trends in **Partisan Polarization** and **Income Equality** in the United States as depicted in Razvan Vlaicu's paper *Inequality, Participation, and Polarization* [MZ12]



II. The Cost of Racial Polarization

Example 3.

Residential Segregation

- Racially polarized neighborhoods can lead to **disparities** in **average median income** [MZ18] [MZ19]
- Income inequalities further **increase** racial and spatial polarization [MZ20]

Example 3.

Residential Segregation

**Racially
polarized
neighbor-
hoods**

[MZ18]

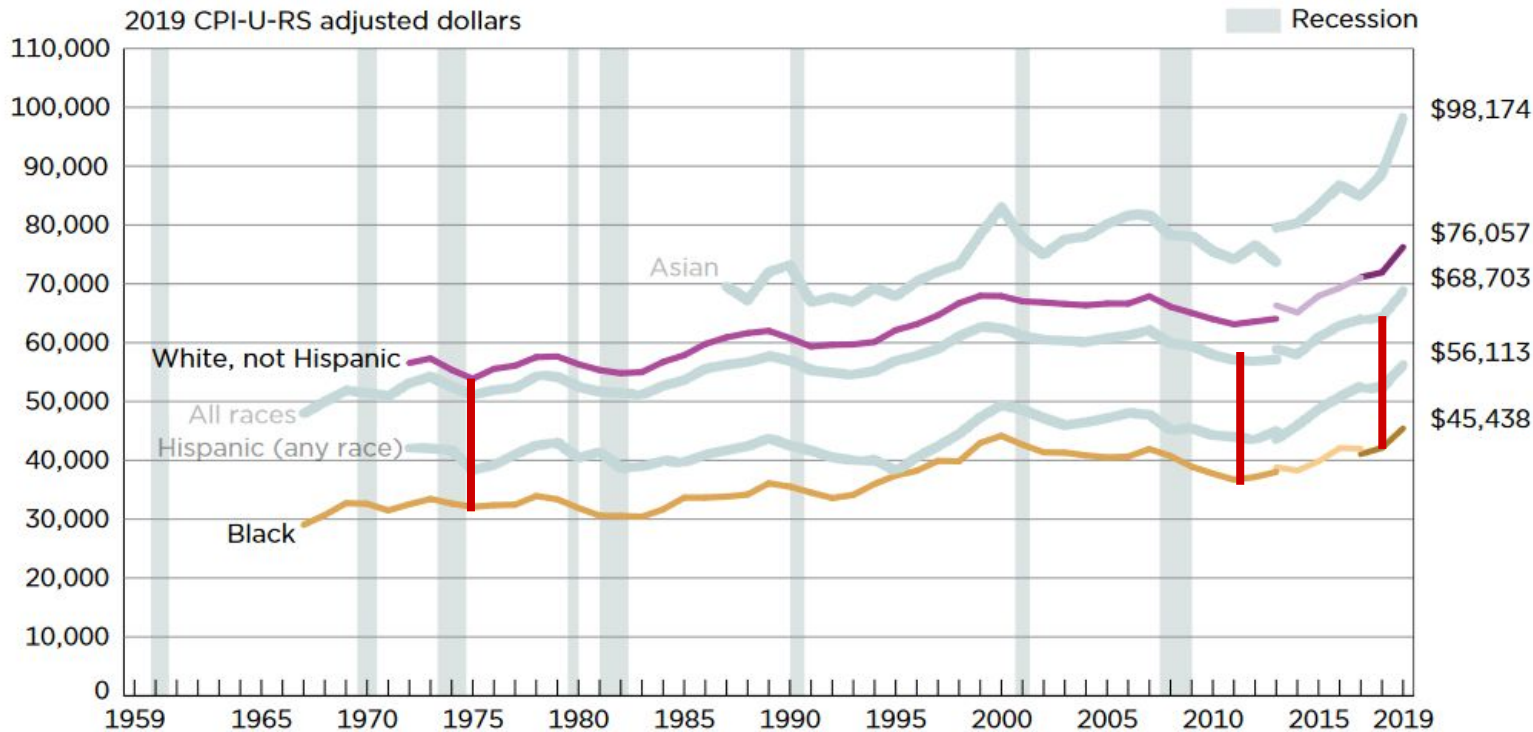
[MZ19]

**Income
disparities
among
different
races**

Figure 2.

Real Median Household Income by Race and Hispanic Origin: 1967 to 2019

(Households as of March of the following year)



Source: U.S. Census Bureau, Current Population Survey, 1968 to 2020 Annual Social and Economic Supplements (CPS ASEC).

A mandatory / voluntary solution alleviating these costs would need to consider...

- How polarization affects:
 - Gross domestic product (GDP) and total discretionary funding (TDF)
 - Individual Income
 - Economic policies (as with COVID-19)
- The circular relationship between racial polarization in areas such as housing and employment and the income disparity between different races

Political and Racial Polarization:

- Affected the determining of COVID-19 economic policy and restrictions
- **Increased** income inequalities between racially polarized neighborhoods (widening the income gap particularly with minorities)
- **Decreased** the U.S. gross domestic product (GDP) and total discretionary funding of the U.S. government

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