ANNUAL REVIEWS

Annual Review of Financial Economics

Political Polarization and Finance

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Annu. Rev. Financ. Econ. 2024. 16:413–34

First published as a Review in Advance on September 18, 2024

The *Annual Review of Financial Economics* is online at financial.annualreviews.org

https://doi.org/10.1146/annurev-financial-110921-010439

JEL codes: G11, G30, G34, G40, M12

Keywords

political polarization, partisanship, governance, corporate finance, portfolio choice, investment decisions

Abstract

We review an empirical literature that studies how political polarization affects financial decisions. We first discuss the degree of partisan segregation in finance and corporate America, the mechanisms through which partisanship may influence financial decisions, and the available data sources used to infer individuals' partisan leanings. We then describe and discuss the empirical evidence. Our review suggests an economically large and often growing partisan gap in the financial decisions of households, corporate executives, and financial intermediaries. Partisan alignment between individuals explains team and financial relationship formation, with initial evidence suggesting that high levels of partisan homogeneity may be associated with economic costs. We conclude by proposing several promising directions for future research.

1. INTRODUCTION

Political polarization is one of the most defining sociopolitical issues of the twenty-first century, with many metrics suggesting that polarization has increased in the United States (for a review of the relevant evidence, see Abramowitz 2018, Fiorina & Abrams 2008, and Gentzkow 2016). For example, a rich body of research has documented a rise in affective polarization, the notion that partisans dislike and distrust supporters of the other party (e.g., Iyengar, Sood & Lelkes 2012; Iyengar & Westwood 2015). Moreover, party affiliation increasingly predicts individuals' decisions in both political and apolitical domains, such as whom to marry (Alford et al. 2011), whom to date (Huber & Malhotra 2017), or where to live (e.g., Brown et al. 2023). Given these trends, it has become a priority for financial economists to understand how political partisanship and ideology influence financial decisions, corporate policies, asset prices, and the economy more broadly.

The above trends in political polarization, combined with the availability of new data sources, have facilitated a recent surge of empirical research on partisan and ideological divisions in financial decisions. Because polarization can be studied through several different lenses, no unique definition of polarization has been formulated. The dictionary definition of polarization is the "division into two sharply contrasting groups or sets of opinions or beliefs" (Oxford Univ. Press 2000). Political polarization can occur across both party lines and ideological lines (i.e., policy positions). Researchers in political science often use the term political polarization to describe both a state and a trend (Lelkes 2016), which is also common in studies of political polarization in the context of finance. In this review, we use the term political polarization to refer to both the partisan differences between individuals and the political uniformity within groups, which contributes to a landscape of politically segregated environments.

This review focuses on research that studies partisan and ideological divisions in the financial decisions of households, firms, and financial intermediaries; other reviews of the literature have focused on the polarization of political parties (Layman, Carsey & Horowitz 2006), the polarization of the American public (Fiorina & Abrams 2008), the origins and consequences of affective polarization (Iyengar et al. 2019), the effects of polarization on the quality of governance (Lee 2015), and the emergence of partisan media (Prior 2013). A separate strand of the literature focuses on the influence of partisan conflict among members of Congress on investment decisions (e.g., Azzimonti 2014). This strand of the literature is beyond the scope of this review because we focus on polarization among nonpoliticians. Our goal is to describe several recent and primarily empirical studies at the frontier of this area of research, and along the way we point out new data sources, empirical challenges, and promising future directions.

The early literature on partisan differences in financial decisions focused on documenting time-invariant differences between Democrats and Republicans in terms of their portfolio selection, investment recommendations, and corporate policies. More recent research has studied changes in partisan differences around salient political events, such as presidential elections, making it easier to attribute observed differences in the behavior of partisans to partisanship and partisan beliefs. Moreover, recent studies have provided initial insights into the potential economic costs of partisan bias.

We begin this review by providing evidence of partisan segregation in finance and corporate America, motivating the question of how political polarization affects financial decisions and economic outcomes (Section 2). We then summarize the challenges of identifying polarization in financial decisions and describe how the availability of new data and the usage of novel empirical approaches can provide new insights (Section 3). Section 4 summarizes and discusses the empirical evidence on individual-level partisan differences. Section 5 discusses the effects of partisan divisions on team- and firm-level outcomes. The consistent theme that emerges from this broad range of studies is that political polarization is evident in the financial decisions of households, firms, and financial intermediaries, with consequences for trading volume, firms' cost of capital, corporate investment, and asset prices. Section 6 concludes and suggests areas for future research.

2. PARTISAN SEGREGATION IN FINANCE AND CORPORATE AMERICA

In this section we review the evidence for the degree of partisan segregation in financial contexts. Linking top-earning executives in Standard & Poor's (S&P) 1500 firms to voter registration records from L2, Inc., using the approach in Fos, Kempf & Tsoutsoura (2024), reveals substantial partisan segregation at the highest leadership level of the firm. On average, executive teams are dominated by Republican executives, with approximately two Republican executives for every Democratic one (67% of partisan executives are registered Republicans). As **Figure 1*a*** shows, this percentage varies widely across firms headquartered in different states. The share of Republican executives ranges from more than 75% for firms located in Florida, Georgia, and Texas to as low as approximately 50% for firms in Massachusetts and New York. In addition to geography, the data also reveal substantial partisan sorting of executives into executive roles (**Figure 1*b***). The share of Democratic executives ranges from 27% in chief financial officer positions to more than 50% for chief legal officer and general counsel positions.

Partisan sorting is not unique to executives. Kempf & Tsoutsoura (2021) document partisan segregation by sectors among credit rating analysts; utilities firms have the highest share of Democratic analysts following them, and energy firms have the lowest (**Figure 2**). Hong & Kostovetsky (2012) use manager-level political campaign contributions to provide evidence of partisan sorting into investment mandates in the asset management industry. Mutual funds managed by Democratic managers are much more likely to be classified as social responsibility funds (**Figure 3**).

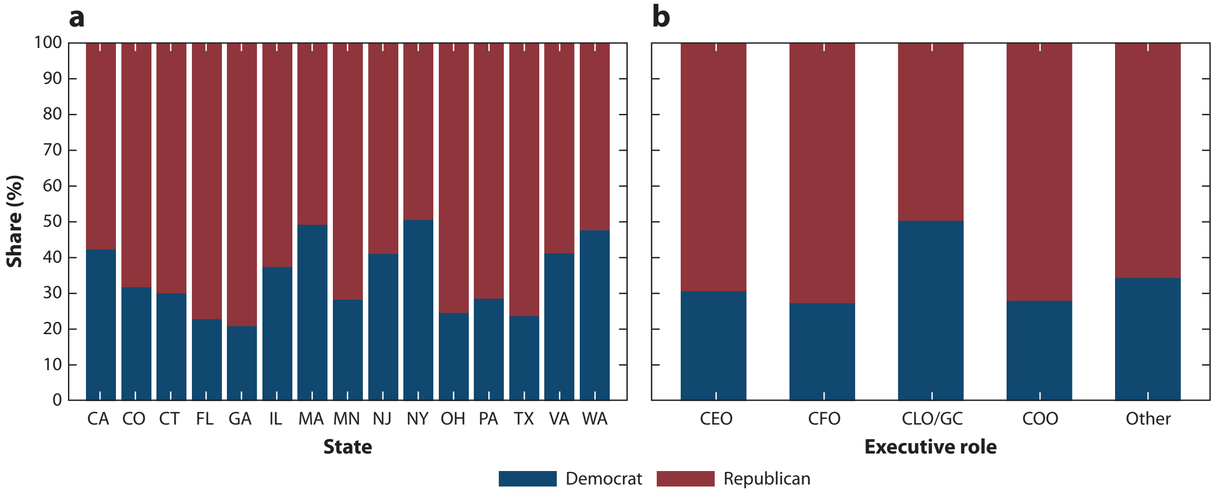

Figure 1

Party affiliations of US executives, showing the distribution of party affiliations of all US executives between 2008 and 2022 across different subsamples. (*a*) Executives' party affiliation by state of the firm's headquarters, restricted to the 15 states with the largest number of firms. (*b*) Distribution of US executives' party affiliations by executive role. Both samples are restricted to partisan executives. Abbreviations: CEO, chief executive officer; CFO, chief financial officer; CLO, chief legal officer; COO, chief operations officer; GC, general counsel. The data were constructed by linking top-earning executives in S&P 1,500 firms to voter registration records from L2, Inc.

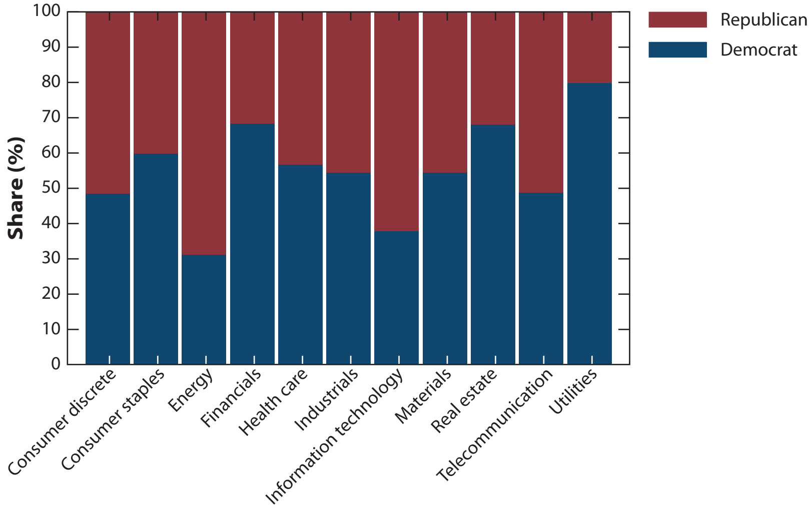

Figure 2

Party affiliations of credit analysts by Global Industry Classification Standard sector. The sample is restricted to partisan credit analysts. The data are from Kempf & Tsoutsoura (2021), who match analysts mentioned in the press releases of rating agencies to voter registration records from Illinois, New Jersey, and New York City.

Consistent with this finding, Cassidy & Vorsatz (2024) report that funds with a high Morningstar sustainability rating are also more likely to be managed by Democratic fund managers.

If specific geographies, industries, and investment mandates are dominated by individuals with a particular party affiliation, two natural questions that arise are how individuals' partisanship shapes economic thinking and financial decisions and whether partisan sorting is an efficient

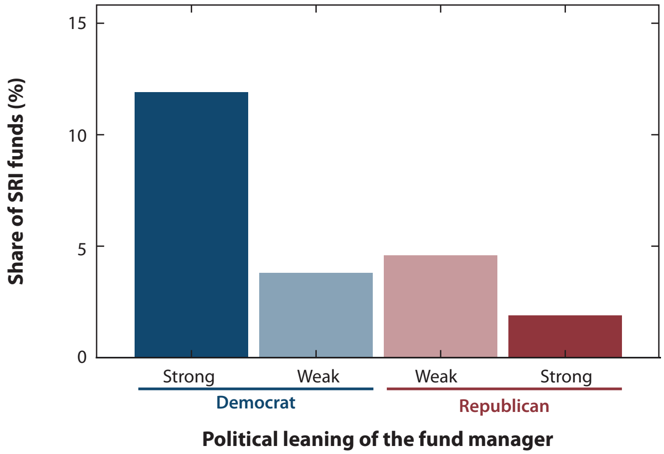

Figure 3

Investment mandates of US mutual fund managers, showing the share of funds that are classified as a socially responsible investment (SRI) by political leaning of the fund manager, as reported by Hong & Kostovetsky (2012). Strong Democrats are fund managers who contributed more than $2,000 to Democratic candidates (net of contributions to Republican candidates), whereas Weak Democrats contributed $2,000 or less to Democratic candidates (net of contributions to Republican candidates). Strong Republicans and Weak Republicans are defined analogously. The data span the years 1992 to 2006.

outcome. The next section discusses potential economic mechanisms through which the partisan leaning of financial decision-makers may matter for outcomes.

3. THEORETICAL MOTIVATION AND COMMON EMPIRICAL CHALLENGES

3.1. Theoretical Motivation

Partisanship or political ideology may influence individual decisions via multiple mechanisms. Partisans may derive utility from interacting with their copartisans or from holding certain types of financial securities. We refer to this mechanism as the partisan utility channel.

Another possible mechanism is via partisan beliefs. Partisans may hold different beliefs regarding the state of the economy, expected risk-adjusted returns in the cross section of stocks, or the ability of in-group versus out-group partisans. The notion of a partisan perceptual screen was introduced in a seminal study by Campbell et al. (1960). Heterogeneity in beliefs could arise from differences in information environments (e.g., via partisan media), differences in attention, or differences in individuals' models of the world.

Differentiating between these two broad channels is impossible in many cases, but it is nevertheless useful as an organizing framework. Moreover, as we discuss below, one of the broader contributions of the literature on political polarization and finance is to provide new evidence for the importance of beliefs and disagreement for portfolio allocation, trading volume, and asset prices.

If partisan utility or partisan beliefs lead to inefficiencies, then competition should drive out highly partisan individuals or firms, similar to the role of competition in mitigating discrimination. However, the extent to which competition can extinguish partisan views depends not only on the degree of the distortions they create but also on the ease of detecting them. If partisans are biased, for example, in their views of the state of the economy or the profitability of investing using environmental and social criteria, then it may require a long time series to be able to accurately assess whether one's beliefs are systematically too positive or negative. Such partisan disagreement may thus survive for long periods of time.

3.2. Common Empirical Challenges

Establishing a link between party affiliation, or ideology, and financial decisions presents substantial empirical challenges in terms of both measurement and identification.

3.2.1. Measurement. A central challenge in empirical research on partisanship and polarization is measurement, because observing both the financial decision of interest and the individual's political leaning simultaneously is necessary. However, outside of surveys, such as the University of Michigan Survey of Consumers or the Gallup Daily survey, which assess respondents' self-declared party affiliation, this information about individuals is often not readily observable. Researchers have followed different approaches to overcome this challenge. One approach is to use the dominant partisan leaning of the area in which an individual resides as a proxy for her party affiliation. To obtain partisan leanings by geography, studies have used both vote shares in presidential elections (e.g., Mian, Sufi & Khoshkhou 2023), which are subject to the limitation that the geographic granularity is limited to the county level, and public information on political campaign contributions provided by the Federal Election Commission (FEC), aggregated at the zip code level (e.g., Meeuwis et al. 2022).

Other studies have linked political ideology and/or party affiliation directly to individual decision-makers, allowing researchers to exploit variation in individuals' ideology or partisan affiliations within the same geography. The dominant data source for individual-level measures of political leanings in US settings has been political campaign contribution data provided by the FEC (e.g., Hong & Kostovetsky 2012).[1] The richness of the political contribution data has the advantage of allowing researchers to measure not only an individual's partisan leaning (Democratic versus Republican) but also more nuanced aspects of political ideology based on the ideology of the candidates that an individual has supported. However, the use of political contributions to infer ideology or partisan leanings has two limitations. First, only contributions in excess of $200 over a 2-year election cycle are reported, and only a small fraction of US voters make political contributions.[2] Second, campaign contributions may be made with the intention to exert political influence or in response to social pressure and, thus, may not necessarily reflect the donor's true ideology. There is an open debate among political scientists regarding the degree to which political contributions might be driven by consumption or investment motives. This is especially likely for leaders of an organization, such as corporate executives (e.g., Gordon, Hafer & Landa 2007), who might donate in order to derive a consumption benefit or to influence political outcomes.

To overcome the above challenges inherent in the political contributions data, a growing number of recent studies have used voter registration data to measure individuals' party affiliation. The use of voter registration data is motivated by large-scale survey evidence indicating that party registration is a very good predictor of individuals' self-reported party identification (e.g., Igielnik et al. 2018). Voter records have allowed researchers to study partisan divisions in a much broader set of individuals that goes beyond the highest-ranking corporate executives and fund managers to include financial analysts (Kempf & Tsoutsoura 2021), entrepreneurs (Engelberg et al. 2023a), loan officers (Dagostino, Gao & Ma 2023), and patenters (Engelberg et al. 2023c, Fehder et al. 2024). Because of the increasing use of voter registration data in finance and economics, we briefly describe the different sources of these data:

- Boards of election. Because no federal registry of voters exists in the United States, voter registration records must be requested from the state or, sometimes, the county or city boards of election. Even though the exact information provided varies from location to location, most voter registration files contain identifying information, such as the voter's name, date of birth, and mailing address. Many, but not all, states also provide the voter's party affiliation at the time of a given election, as well as an indicator for the election(s) in which an individual has voted. Fos, Kempf & Tsoutsoura (2021, internet appendix) present a detailed summary of the data contained in each state's voter registration files, as well as the cost of the data acquisition.
- Commercial data providers. As an alternative to data provided directly by boards of elections, voter data can be purchased from commercial providers, such as LexisNexis Public Records (e.g., Dagostino, Gao & Ma 2023) or L2, Inc. (e.g., Engelberg et al. 2023a; Fos, Kempf & Tsoutsoura 2024). An important advantage of the data provided by L2, Inc. is that they cover the entire United States and provide historical snapshots of voter files going back to 2014, thereby mitigating the concerns about potential purging of voter records due to deaths and relocation raised by, for example, Kim & Fraga (2022). The main disadvantage of using

[1] A great resource for donation data, including for local and state elections not covered by the FEC, is Stanford's Database on Ideology, Money in Politics, and Elections, which contains cleaned and standardized information on names, addresses, occupations, and employers, as well as unique identifiers for all individual and institutional donors included in the database, enabling easier tracking of contributions by individuals across election cycles and levels of government (for a detailed description, see Bonica 2016b).

[2] According to a study by Hill & Huber (2017), fewer than 10% of registered US voters are federal or state donors.

L2 data is that historical snapshots are unavailable prior to 2014, whereas some boards of elections provide voter histories going back further than 2014.

Outside the United States, Colonnelli, Pinho Neto & Teso (2022) use party registration data provided by the Tribunal Superior Eleitoral in Brazil and link them to workers and firm owners.

Finally, some recent studies have used textual analysis and natural language processing to detect partisanship in the speech of individuals or organizations (e.g., Cookson, Engelberg & Mullins 2020; Cassidy & Kempf 2023; Engelberg et al. 2023b). An advantage of the natural language processing approach is that it can detect changes in partisan slant at higher frequencies and can provide a continuous rather than a binary measure of partisan leaning. Moreover, it can capture partisan disagreement on specific topics and in non-US contexts.

3.2.2. Empirical designs. The empirical literature on political polarization in finance has applied three broad empirical approaches. The first is to document the economic magnitude of partisan differences in financial decisions, such as stock market participation, portfolio allocation, and corporate decisions, while controlling for and benchmarking against a broad range of other observable individual characteristics (e.g., Kaustia & Torstila 2011, Hong & Kostovetsky 2012).

The second approach, which is used primarily by studies examining partisan differences in views of the economy, is to estimate within-partisan-group changes in behavior around salient political events, such as political elections (e.g., Kempf & Tsoutsoura 2021; Dagostino, Gao & Ma 2023; Engelberg et al. 2023c; Kempf et al. 2023). Estimating changes in behavior around political events, as opposed to time-invariant differences in behavior, makes it easier to rule out alternative explanations for observed group differences that do not operate via political ideology or partisanship. Moreover, close elections offer researchers the possibility to study close-to-random variation in the political alignment between individuals and elected governments. A related approach that also exploits time variation in partisan differences is the one used by Gormley, Kaviani & Maleki (2024), who study how partisan differences vary with the overall level of political polarization in society.

The third approach is to use the staggered expansion of partisan news media, such as the Sinclair Broadcast Group, to identify the impact of exposure to partisan media on individual decisions and corporate policies (e.g., Kaviani, Li & Maleki 2023; Pan et al. 2024). The strength of this approach is that the expansion of the Sinclair Group in US regional TV markets offers a quasi-natural experiment, because it appears to be largely idiosyncratic conditional on regional characteristics and has been able to significantly shift local partisan leaning. A caveat is that the expansion of the Sinclair Group also led to a shift from less local to more national coverage (Kaviani, Li & Maleki 2023), making it difficult to attribute changes in outcomes solely to shifts in local partisan leaning.

No study to date has addressed the degree to which the effect of partisanship on financial decisions reflects a causal effect of party affiliation, where supporters of different parties feel optimism or pessimism because their team won the election (Mason 2015), akin to sports fans. Alternatively, party affiliation could be capturing ideological differences across individuals beyond other observable characteristics (e.g., gender, age, wealth) and have strong incremental predictive power for their financial decisions. In our view, disentangling these two interpretations is one of the most pressing issues in the partisanship literature.

Akin to the empirical literature on labor market discrimination, studies of political polarization in finance often struggle to separate the role of differences in beliefs from differences in arbitrary preferences. As we discuss below, recent progress has been made by leveraging surveys (see Section 4.1.4) and experiments (e.g., Colonnelli, Pinho Neto & Teso 2022).

4. PARTISAN AND IDEOLOGICAL DIVISIONS IN INDIVIDUAL-LEVEL DECISIONS

Partisan and ideological divisions in financial decisions by individual economic agents have been documented along several dimensions. The earliest studies on the topic focused on documenting partisan heterogeneity in risk-taking across partisan lines (e.g., Kaustia & Torstila 2011; Hutton, Jiang & Kumar 2014; Jiang, Kumar & Law 2016). Section 4.1 reviews a more recent and rapidly growing literature studying how partisan views of the economy change around political elections and influence investment and asset allocation decisions. Another strand of the literature, summarized in Section 4.2, documents partisan differences in views of specific issues, such as corporate social responsibility (CSR) and climate risk, as well as specific industries. Section 4.3 discusses growing partisan divisions among financial regulators, particularly Securities and Exchange Commission (SEC) commissioners. Finally, Section 4.4 explores the role of partisan assortative matching in contexts that are relevant to financial markets.

4.1. Partisan Views of the Economy

A rich literature in economics and political science documents the tendency of voters to view the economy through a partisan perceptual screen; that is, their assessment and interpretation of economic conditions and economic policies depend on whether they are politically aligned with the government (e.g., Bartels 2002; Gaines et al. 2007; Gerber & Huber 2009; Mian, Sufi & Khoshkhou 2023). Economic optimism, or sentiment, in turn, can affect a broad range of financial decisions. Recent studies have explored the role of partisanship as a driver of economic optimism and financial decisions in the context of financial intermediaries, corporate executives, entrepreneurs, inventors, and households.

4.1.1. Financial intermediaries. Studies have explored the extent to which partisanship affects the decisions of important financial intermediaries. As we elaborate below, this effect on intermediaries' decisions can have important implications for firms' cost of capital and their investment decisions. Kempf & Tsoutsoura (2021) were among the first to provide evidence that political alignment with the US president affects the decisions of professionals in the financial sector. The sample consists of corporate credit analysts, working at Fitch, Moody's, and S&P, covering approximately 2,000 US firms. To measure the analysts' party affiliation, Kempf & Tsoutsoura (2021) used information from voter registration records obtained from Illinois, New Jersey, and New York City.

A key empirical challenge is to separate partisan beliefs from partisan individuals being directly economically affected by the outcome of the presidential election (e.g., Democratic analysts rate firms that perform well under the policies of Democratic presidents). To address this challenge, Kempf & Tsoutsoura (2021) compare the rating actions of analysts who rate the same firm at the same point in time, thereby ensuring that firm heterogeneity does not drive the effect. They document that analysts who are not affiliated with the president's party (i.e., misaligned analysts) downward-adjust ratings more than aligned analysts covering the same firm at the same point in time. The economic magnitude of the effect is sizable, corresponding to 11.4% relative to the average absolute quarterly rating adjustment, and is even larger for politically active analysts.

Kempf & Tsoutsoura (2021) find that the effect of partisan alignment with the president is economically sizable relative to other determinants of credit ratings: It is equivalent to moving from the fiftieth to the seventy-fifth percentile of the analyst fixed-effects distribution and is comparable to the effect of other important nonfundamental factors influencing rating agencies' information production, such as the effect of competition or the home-bias effect.

Similar findings have been reported for other important groups of finance professionals. For example, Dagostino, Gao & Ma (2023) show that partisan alignment of corporate bankers with the US president influences their pricing decisions in the US syndicated loan market, and Cassidy & Vorsatz (2024) find that partisan alignment of mutual fund managers with the US president influences their capital-allocation decisions. In terms of magnitude, Cassidy & Vorsatz (2024) estimate that Republican mutual fund management teams actively increased their net equity holdings by approximately 2% around the 2016 election. These effects are persistent during Trump's tenure as president. Moreover, Republican mutual fund managers increase their exposure to cyclical industries, increasing the amount of risk they take overall.

The above papers focus on partisan disagreement about the US economy. Remaining questions are how much this finding reflects a US phenomenon and whether ideological alignment also matters in international contexts. The latter question is particularly important because international capital flows have increased substantially in recent decades. Kempf et al. (2023) provide evidence from two settings—syndicated corporate loans and equity mutual funds—to show that ideological alignment with foreign governments affects cross-border capital allocation by large, US-based institutional investors. The authors' main empirical strategy examines changes in the capital allocation by investors with different party affiliations from the same home country investing in the same destination country around the same foreign national election. Ideological distance to foreign governments is measured using the left–right ideology score from the Manifesto Project Database (Volkens et al. 2018), which measures parties' policy positions in more than 50 countries since 1945 on the basis of their electoral manifestos. The main finding of Kempf et al. (2023) is that institutional investors increase the amount of capital they allocate to a foreign country if they are more ideologically aligned with that country's government.

A deeper understanding of how much partisanship and political ideology affect financial decisions outside the United States is an open area for research. Studying political polarization abroad comes with greater data limitations, because in most developed economies party registration is uncommon and, in most cases, is inaccessible to researchers.

4.1.2. Entrepreneurs, executives, and inventors. The studies described above show that the economic optimism of important financial intermediaries is influenced by the degree of their political alignment with the government. Other studies aim to extend our understanding of how partisan alignment with the government affects financial outcomes by investigating the investment decisions of entrepreneurs, executives, and inventors.

Engelberg et al. (2023a) show that partisan alignment with the government can affect the decision to start a new business. They first document that Republicans on average are 26% more likely to start a business than Democrats, which corresponds to approximately a third of the well-documented and widely researched gender gap in entrepreneurship (e.g., Guzman & Kacperczyk 2019). Moreover, the gap between Republicans and Democrats in terms of their propensity to start a business widens when Republicans take control of the presidency and shrinks when Democrats do, a pattern which the authors attribute to entrepreneurs being more optimistic when their preferred party is in power. The authors further show that it is not only alignment with the president that matters for new business formation, but also alignment with the governor.

Changes in economic optimism are also evident among corporate executives when the party in control of the presidency changes. Rice (2023) and Fos, Kempf & Tsoutsoura (2024) document that executives are less likely to sell their own company stock when their preferred party wins a presidential election, compared with executives whose party loses a presidential election. For Fos, Kempf & Tsoutsoura (2024), this effect holds when comparing executives trading their stock of the same company in the same calendar month, thus alleviating concerns that companies by aligned and misaligned executives may differ on important unobservable dimensions.

Finally, alignment with the president's party also affects corporate innovation and the productivity of inventors. Engelberg et al. (2023c) match data from the US Patent and Trademark Office on patents and inventors with political affiliation data from L2, Inc., and compare the productivity of individual patenters in the same geographic area or in the same firm around the 2008 and 2016 presidential elections. They find that the annual probability of patenting is approximately 2% higher for Democratic patenters relative to Republican patenters after the 2008 election won by Obama, whereas the Democratic patenters' relative productivity drops by 3.8% in the 2016 election won by Trump. The effects are stronger for politically active patenters. The authors interpret these results as being driven by differences in economic sentiment.

4.1.3. Households. Other studies have documented the importance of partisan alignment with the government on the portfolio allocation and borrowing decisions of households. Ex ante, whether partisan differences in the economic expectations of households translate into partisan differences in financial decisions is not obvious. The existing evidence on the effects of partisan alignment with the government on households' consumption decisions is mixed and shows, at best, limited effects.[3]

The existing evidence on portfolio-allocation decisions of households reveals modest effects of political alignment with the president. Bonaparte, Kumar & Page (2017) use a combination of survey data and account-level data to show that retail investors become more optimistic when they are aligned with the party of the president, but the effect on the allocation to risky assets is weaker. Meeuwis et al. (2022) use granular account-level data from a large US financial institution to document that, following the 2016 election, retail investors in the most Republican zip codes increased their equity share and market beta relative to otherwise similar retail investors in Democratic zip codes. Their detailed account-level data, with information on a rich set of household characteristics, allow them to separate the effect of political beliefs from differential wealth effects or hedging needs around the election. For example, they are able to compare investors who work for the same employer in the same county in order to address the possibility that Republican and Democratic households may be differently economically affected in their labor income by the outcome of the presidential election.

Meeuwis et al. (2022) find that investors in the most Republican quintile of zip codes increased their equity shares by approximately 0.8% relative to investors in the most Democratic quintile of zip codes. These effects are large compared with those of other key life-cycle variables, such as age, wealth, and income. Nevertheless, the magnitude for the average household is much smaller than the reallocation documented by Cassidy & Vorsatz (2024) for professional money managers around the same event. The difference is explained mostly by the frequency of trading, as only one-third of the investors studied by Meeuwis et al. (2022) actively rebalance their portfolio in a given year. For the small proportion of retail traders who do actively trade, the magnitude of the effect is more similar to that of professional investors, consistent with the pass-through of beliefs into portfolio composition being affected by the frequency of trading (e.g., Giglio et al. 2021).

[3] For example, Gerber & Huber (2009) find that counties leaning toward the winning presidential candidate experience a boost in spending, measured using taxable sales, and Gillitzer & Prasad (2018) find that changes in sentiment around elections are correlated with vehicle purchases. In contrast, McGrath (2017), extending the sample of Gerber & Huber (2009), finds no evidence that partisan ideology affects spending. Mian, Sufi & Khoshkhou (2023) reexamine the issue by combining data on vehicle purchases and credit card spending with an estimated propensity to vote for the Republican candidate in presidential elections at the county and state levels; they do not find a significant relationship.

Beyond portfolio allocation, political alignment may also affect households' trust and participation in government lending programs. D'Acunto, Ghosh & Rossi (2021) provide supporting evidence. They find significantly higher take-up rates of a large-scale Indian loan guarantee program in electoral districts that support the ruling party. These results are important because they indicate that partisan bias may also be relevant in non-US contexts and can influence the transmission of fiscal policy. In our view, improving our understanding of how partisan bias can influence the transmission of fiscal and monetary policy is a promising direction for future research.

Taken together, the above evidence suggests that political alignment with the government is an important driver of economic expectations and shapes the financial decisions of important financial intermediaries, corporate managers, and households. In Section 5, we discuss the evidence for firm-level consequences of these partisan divisions in economic optimism.

4.1.4. Mechanism: belief disagreement. While the studies discussed above cannot completely rule out arbitrary preferences driving the differences in behavior around political events, our view is that they provide very strong evidence in support of a belief channel, where individuals are more optimistic about the economy when their preferred party is in power. Specifically, Kempf et al. (2023) show that banks which experience an increase in ideological distance around foreign elections are more likely to revise their 1-year-ahead GDP growth forecasts downward relative to banks with a decrease in ideological distance. Consistent with this finding, Kempf & Tsoutsoura (2021) report greater economic optimism among Republican credit analysts in a one-time survey they conducted during the Trump presidency. Moreover, by asking the same survey question to elicit economic optimism as in the Gallup Daily survey, they estimated that the partisan gap in economic optimism among credit rating analysts is equivalent to approximately three-quarters of the partisan gap among US households. This finding is remarkable, given that credit rating analysts face competition and career concerns that incentivize them to be accurate, and they have a much higher level of economic sophistication than the average US household. The survey results thus point to unconscious partisan bias in economic beliefs as a likely driver behind the observed partisan differences around elections.

4.2. Partisan Views of the Cross Section of Investments

Beyond the state of the economy, Republicans and Democrats may also differ in their views of the cross section of investments. These differences may take the form of heterogeneous preferences; for example, Democrats and Republicans may gain different nonpecuniary benefits from holding different types of stocks. Alternatively, they could take the form of a different risk–return model; for instance, Democrats may believe that environmentally friendly firms have higher risk-adjusted returns in the long run. In the following subsections, we summarize the evidence for partisan gaps in individuals' views of the cross section of investments.

4.2.1. Corporate social responsibility. Several studies have documented how partisans differ in terms of their views of firms pursuing nonfinancial goals. In one of the first studies on the topic, Hong & Kostovetsky (2012) use political donations to identify the political affiliations of US mutual fund managers and show that Democratic managers underweight stocks that are deemed socially irresponsible, relative to nondonors and Republican managers. Despite these differences in portfolio allocation, the authors find no differences in fund performance, indicating that the decision to underweight socially irresponsible stocks may involve both nonpecuniary and pecuniary considerations.

The partisan leaning of the firm's leadership also correlates with its CSR activities. Di Giuli & Kostovetsky (2014) report that companies with Democratic founders, CEOs, and directors are associated with higher CSR scores and spend more company resources on CSR activities, although that does not lead to better firm performance. In the context of institutional investors, Gormley, Jha & Wang (2024) find that institutional investors' support for socially responsible investing shareholder proposals depends on the political affiliation of the governor of the state in which the portfolio firm is located. They interpret this finding as evidence that institutional investors take into account the state's political landscape when deciding on their support for social and environmental issues.

With regard to retail investors, Baker, Egan & Sarkar (2022) use a revealed preference approach to estimate investors' willingness to pay for index funds with environmental, social, and governance (ESG) objectives. They estimate that individuals located in a county with a 100% Republican vote share are willing to pay 12 basis points for ESG, whereas investors located in a county with a 100% Democratic vote share are willing to pay 31 basis points. Importantly, however, both ends of the political spectrum appear to value ESG to some degree. Using a combination of survey data and account-level holdings data from Vanguard, Giglio et al. (2023) find a partisan gap both in optimism about ESG returns and in actual participation in ESG investments.

Partisans differ not only in their willingness to invest in companies pursuing nonfinancial goals but also in their views of how severely companies should be punished for different types of misbehavior. Examining the judiciary, Gormley, Kaviani & Maleki (2024) show that judges' party affiliation affects the judicial penalties they levy against companies. Judges impose higher fines for crimes that are viewed as more negative within their own party. For example, Democratic judges punish environmental crimes more harshly, whereas Republican judges levy higher fines on firms violating immigration law. These partisan biases in judges' rulings are exacerbated around national elections and shape corporate incentives.

4.2.2. Climate and pandemic risk. Political ideology can shape individuals' perceptions of certain risk factors. For example, Americans are very polarized across partisan lines in their views of climate risk, as shown by a 2016 Pew Research Center survey (Funk & Kennedy 2016), which may at least partly explain the differential willingness to pay for ESG documented above. Moreover, during the COVID-19 pandemic, supporters of the Democratic and Republican parties held different views regarding both the severity of the pandemic and the effectiveness of implemented public health policies. Several recent studies have found that these partisan gaps in risk perception go beyond rhetoric and affect important economic decisions.

Bernstein et al. (2022) examine partisan residential sorting in anticipation of climate change. By comparing properties in similar locations but with different exposures to risk of sea-level rise, they find that Republicans, relative to Democrats, are increasingly likely to own properties exposed to rising sea levels. Using data on individuals' search behavior on Google and geospatial mapping data capturing daily travel and visits to nonessential businesses, Barrios & Hochberg (2021) show that counties with high levels of Trump support initially exhibited a muted reaction to COVID-19 cases and less adherence to local government guidelines on social distancing behavior. Cookson, Engelberg & Mullins (2020) report further evidence that Republican and Democratic investors differed in their views of the cross section of stocks during the COVID-19 pandemic. Identifying Republicans using party-identifying language on the investor social platform StockTwits, they find that Republicans became more optimistic about stocks that were most negatively affected by the pandemic, and more pessimistic about Chinese stocks, relative to other users. This partisan disagreement was associated with an abnormally high trading volume. Consistent with these findings, Sheng, Sun & Wang (2023) document differences in stock returns between firms dominated by Democratic investors relative to firms dominated by Republican investors, partly due to polarized beliefs about COVID-19. Overall, the above evidence implies that partisan views on climate and health risks are reflected in substantive decisions and can influence both trading volume and asset prices.

4.3. Partisan Differences Among Financial Regulators

Evidence for the role of political partisanship and ideology in the behavior of regulators is generally scarce. Engelberg et al. (2023b) present a notable exception. Using a language model by Gentzkow, Shapiro & Taddy (2019), they analyze partisan divisions in the speech of SEC commissioners and Fed governors by measuring the degree to which the commissioners and governors speak like congressional Democrats or Republicans. The data reveal a recent rise in partisanship among SEC commissioners, reaching an all-time high in the 2010s, whereas Fed governors remained relatively nonpartisan during the entire sample period (1930–2019). The partisanship of SEC commissioners manifests itself both in the language of new SEC rules and in their voting behavior. The rise in partisanship at the SEC is particularly remarkable, given that the government agency is meant to be politically independent.

4.4. Partisan Assortative Matching

A rich literature in political science has documented increased political homogeneity in social relationships, such as marriages and dating relationships (e.g., Huber & Malhotra 2017; Iyengar, Konitzer & Tedin 2018). This phenomenon is often referred to as partisan homophily, a tendency to form relationships with individuals who have the same political affiliation. Partisan homophily can manifest itself via multiple channels (Mummolo & Nall 2017). First, partisans may derive utility from interacting with their copartisans, as in frameworks of taste-based discrimination (Becker 1957, Goldberg 1982). Second, individuals with limited information might use easily observable signals of productivity or match quality, as in models of statistical discrimination with correct beliefs (Phelps 1972, Arrow 1973, Aigner & Cain 1977) or incorrect statistical discrimination (Bohren et al. 2023). A third channel is via shared beliefs or preferences that are correlated with party affiliation. For example, members of the same party may exhibit similar employer choices because they prefer to work for similar types of firms (e.g., environmentally conscious firms). This channel is particularly relevant, given that political affiliation has become a stronger predictor of both individual values (Doherty 2017) and economic views (see Sections 4.1 and 4.2). Importantly, all three channels can contribute to partisan assortative matching in business contexts.

Given the evidence for partisan assortative matching in social relationships, two natural questions are whether such matching is also present in the workplace and business relationships and how it has evolved over time. Whether workplace and business relationships should follow the same patterns as other social relationships is a priori not clear. If politically homogeneous teams are not an economically efficient outcome, competitive pressure may limit the degree of polarization in the workplace. In fact, the workplace has historically been more politically diverse and provided more opportunities for cross-party interactions than other contexts, such as the family, the neighborhood, or the voluntary association (e.g., Mutz & Mondak 2006).

4.4.1. Partisan assortative matching in the workplace. Several recent studies have examined partisan assortative matching in the workplace. Whether being segregated across political lines is economically efficient is ambiguous from a theoretical point of view. On one hand, political segregation can lead to inefficient hiring, firing, and promotion practices and can undermine effort and group performance. It may also lead to groupthink by starving teams from a wider range of skills and ideas. On the other hand, political homogeneity in teams could lower communication costs and avoid partisan discrimination (Becker 1957) or deadlock in decision-making (e.g., Donaldson, Malenko & Piacentino 2020). We discuss evidence for firm-level and productivity outcomes of partisan assortative matching in Section 5.

Fos, Kempf & Tsoutsoura (2024) study political homogeneity among corporate executives in publicly listed US firms. To identify the political leanings of executives, these authors combine Execucomp data on the top-earning executives in S&P 1500 firms with voter registration records. They document that executives in US firms are predominantly Republican[4] and, more importantly, that they increasingly work with politically like-minded individuals. Using dyadic regressions that allow them to control for other shared demographic characteristics, Fos, Kempf & Tsoutsoura (2024) estimate that the likelihood of two executives working in the same firm increases by approximately 20% when they belong to the same political party. Moreover, the effect of shared party affiliation has increased substantially over time, especially after 2016. The authors attribute most of the increase to executive turnover. Exploring potential drivers of the increased partisan matching of executives, Fos, Kempf & Tsoutsoura (2024) find that it is driven mainly by increased partisan segregation of executives across states. Interestingly, the increase in political matching of executives is approximately twice as high as it would be if executives had followed the same trends of the local voter population, indicating that executives have assimilated at a faster rate in recent years.

Colonnelli, Pinho Neto & Teso (2022) examine political homogeneity among a broader set of employees beyond top leadership. Using data from Brazil, they show that partisan assortative matching occurs between firm owners and the workers they hire. Copartisans are also treated more favorably in terms of both promotions and compensation. Employing a survey, the authors find that both owners and workers believe that owners prefer copartisan workers because of taste-based or belief-based discrimination. A field experiment further supports the existence of political discrimination in the Brazilian workplace. Colonnelli, Pinho Neto & Teso (2022) asked business owners to rate synthetic resumes of job seekers while varying the cues that signal the job seekers' political affiliation. The field experiment reveals that owners rate copartisan candidates more highly. Consistent with these findings, McConnell et al. (2018) provide experimental evidence that workers demand lower reservation wages from copartisan employers.

Combined, the evidence for political matching in the workplace shows that it is prevalent across a variety of settings and is increasing in the United States, at least among top leadership. However, outside of field experiments, it remains unclear how much of the observed partisan assortative matching is driven by employees preferring to work with like-minded individuals, versus partisans sorting on other characteristics of the firm or the environment. In the United States, partisan geographical sorting appears to be an important driver of increased partisan matching, at least at the C-suite level.

4.4.2. Partisan matching and financial relationships.

Political alignment is a relevant predictor of financial transactions and the formation of investment relationships. For example, Wintoki & Xi (2020) report that mutual fund managers tend to overweight firms whose corporate leaders share their own party affiliation. McCartney, Orellana-Li & Zhang (2024) provide evidence of partisan assortative matching as a driver of home sale transactions. Specifically, after new neighbors move in nearby, incumbent residents whose political affiliation does not match that of the new residents are 4% more likely to sell their house in the next 2 years, relative to incumbents who support the same party. McCartney, Orellana-Li & Zhang (2024) interpret this finding as evidence that households prefer to live near copartisans. Thus, diverging home sale patterns can exacerbate partisan spatial segregation.

An important implication of the above findings on partisan assortative matching in the workplace and in financial relationships is that they reduce the opportunity for cross-party interactions in nonpolitical contexts, potentially contributing further to a polarized society.

[4]Using data from political contributions, Cohen et al. (2019) also find that the majority of CEOs in S&P 1500 companies are Republican, and Bonica (2016a) reports similar evidence for executives and board members.

5. FIRM-LEVEL OUTCOMES

In the preceding section, we focus on partisan and ideological divisions between individuals. These partisan divisions in economic perceptions and decisions can influence team-level productivity and firm-level outcomes. In this section, we discuss evidence for firm-level effects from studies presented above as well as from additional studies. Section 5.1 discusses the evidence for firm-level consequences of individuals' partisan views of the economy, and Section 5.2 describes the team- and firm-level consequences of political assortative matching. Finally, Section 5.3 discusses the evidence on partisan media and partisan corporate communication.

5.1. Firm-Level Effects of Partisan Views of the Economy

Studies of partisan perception of the economy have found that the partisan leaning of intermediaries can have sizable effects on firms' cost of capital and investment decisions. Kempf & Tsoutsoura (2021) estimate that, during a 4-year political cycle, a firm loses 0.52% to 0.62% more of its market capitalization (between $89 million and $107 million) if it is rated by a misaligned analyst as opposed to an analyst who is politically aligned with the president. A significant increase in bond yields also occurs, corresponding to 5.9 basis points over a 4-year period. These results indicate that analysts' partisan bias can have nontrivial effects on firms' cost of capital. Consistent with an increase in the cost of financing, firms rated by analysts who transition from aligned to misaligned with the president also exhibit a significant drop in firm investment around presidential elections. However, the authors caution that the effect on firm-level investment is less well identified, as it could be driven partly by unobserved firm heterogeneity.

By focusing on bankers in the syndicated loan market, Dagostino, Gao & Ma (2023) offer more direct evidence regarding how intermediaries' political views affect firms' cost of borrowing. They find that bankers who are misaligned with the president charge 7% higher spreads than aligned bankers, which translates to around a 14-basis-point difference. This difference is sizable compared with the 30-basis-point difference in spreads between firms right above and below the investment-grade cutoff.

Managers' political alignment with the US president also correlates with firms' real investment decisions. Rice (2023) shows that firms run by managers who are politically aligned with the president exhibit higher levels of investment and that these investments are associated with lower stock returns and operating performance, indicating a potential distortion. Taken together, these findings indicate that partisan perception can influence firms' cost of capital and investment decisions.

5.2. Firm- and Team-Level Effects of Partisan Assortative Matching

In Section 4.4, we discuss the evidence of partisan assortative matching in the workplace and in financial transactions. Two natural questions are whether this assortative matching generates inefficiencies for firms and teams and whether the economic cost of partisan sorting can be quantified. At the firm level, much of the existing evidence is indirect. Colonnelli, Pinho Neto & Teso (2022) find that a larger share of copartisan workers in a firm is associated with lower firm growth, consistent with political homogeneity being economically costly for firms. Another important dimension of political alignment within the firm's leadership is the alignment between the CEO and board members, as documented by Lee, Lee & Nagarajan (2014), who use US data to infer political orientation from an individual's full political donation history. Consistent with findings by Colonnelli, Pinho Neto & Teso (2022) for Brazil, Lee, Lee & Nagarajan (2014) find that greater political alignment between the CEO and independent directors is associated with lower firm performance and higher CEO entrenchment.

A setting that allows for better causal identification of the effects of a team's political homogeneity is the asset management industry. Funds are frequently managed by teams, and their performance is relatively straightforward to measure and observable at monthly frequencies. Moreover, individual fund managers can work on different teams, allowing the researcher to observe the same manager working on both homogeneous and heterogeneous teams. Evans et al. (2024) exploit these features to measure the political diversity of mutual fund teams using political donations of the fund managers. They estimate that teams composed of money managers with different political views outperform homogeneous teams by approximately 1.8% annually on a risk-adjusted basis, corresponding to an incremental economic value added of around $2 million per year. This outperformance of diverse teams disappears in times of increased political polarization, possibly as a result of heightened within-team conflict. The authors also exploit exogenous changes to team diversity resulting from mergers and acquisitions activity in the asset management industry to strengthen the causal interpretation of the results. Consistent with the finding that excessive partisanship can hurt fund performance, Vorsatz (2022) shows that mutual funds dominated by partisan managers performed worse than those of nonpartisan teams during the COVID-19 pandemic.

Political alignment may influence not only the formation and performance of teams within the same organization but also the formation of relationships and transactions between organizations. Duchin et al. (2021) collect information on the political contributions of corporate employees and show that the degree of political alignment between firms predicts key cross-firm transactions, namely mergers and acquisitions. They find that companies which are less politically compatible are less likely to merge, and that this relationship has strengthened over time. In addition, the effect is stronger during times of high affective polarization, in other words, when Democrats and Republicans dislike one another more. Political distance between the acquirer and the target is associated with worse postmerger performance and a lower value of synergies, consistent with political misalignment being an obstacle for postmerger integration. Therefore, political misalignment between organizations can impose substantial economic costs. This evidence shows that political homogeneity might be beneficial in some cases, contradicting the earlier studies showing that politically diverse teams and firms perform better. Thus, more research is needed to understand the link between political diversity and performance. Beyond the effect on performance, investigations of how partisan alignment influences the formation and diversification of corporate networks and firms' resilience to aggregate shocks would be a fruitful direction for further research in our view.

In summary, most evidence to date indicates that greater political segregation may be associated with negative effects for firm valuation and team performance, although a direct causal relationship has not yet been established at the firm level. Identification is challenging in these settings, because the empirical design cannot exploit the type of exogenous variation generated by close political elections. We note, however, that more research is needed to understand the costs and benefits of partisan assortative matching, given the mixed findings.

5.3. Partisan Media and Corporate Communication

Finally, a set of studies measure the consequences of partisan financial news and partisan slant in the public speech of US corporations.

5.3.1. Partisan news coverage. Goldman, Gupta & Israelsen (2024) document polarized reporting of the same corporate financial news by comparing news coverage in the conservative *Wall Street Journal* and the liberal *New York Times*. By measuring political alignment using campaign contributions made by firm employees and firm-level political action committees to Republican candidates, they show that newspapers use more positive language and are more likely to report good news about politically aligned firms. Polarized news coverage is associated with greater disagreement and trading among investors, as measured by abnormal daily trading volume in the firms with the most political donations. Also consistent with partisan disagreement generating a motive for trading is the finding by Cookson, Engelberg & Mullins (2020) that greater partisan disagreement on StockTwits during the COVID-19 pandemic was associated with substantially higher abnormal stock turnover. Finally, Luo, Manconi & Massa (2023) provide evidence that distrust of politically affiliated media leads to a lower responsiveness of stock prices to news reports.

Partisan media can also affect the political leaning of the firm's workforce and, thus, corporate policies such as CSR. Kaviani, Li & Maleki (2023) implement a difference-in-differences design exploiting the staggered expansion of the Sinclair Broadcast Group, the largest conservative network in US local TV markets. The authors document a decrease in locally headquartered firms' CSR ratings following the expansion. One challenge with the interpretation of those results is that the entry of the Sinclair Group represents not only a shock to partisan media exposure but also a shift from more local to more national news coverage. How much of the observed changes in CSR ratings are driven by partisan versus national news coverage remains an open question.

5.3.2. Partisan speech by corporations. Another recent study uses advances in natural language processing to detect partisanship in the speech of US corporations on social media. Cassidy & Kempf (2023) collect all tweets sent by S&P 500 companies with verified Twitter accounts between 2011 and 2022, as well as all tweets sent by members of Congress. They identify partisan phrases by estimating the language model used by Gentzkow, Shapiro & Taddy (2019) on tweets by members of Congress and then measure their usage among US firms. Using this measure, Cassidy & Kempf (2023) document a sizable increase in the amount of partisan corporate speech between 2011 and 2022. In the last few years of the sample period, the increase in partisan speech is driven disproportionately by companies using speech commonly associated with Democratic politicians, particularly statements related to climate change as well as to diversity, equity, and inclusion. Interestingly, the shift toward more Democratic-sounding speech is broad based and present across all sectors, across all geographies, and across firms run by Democratic and Republican CEOs. The authors also explore potential reasons behind the rise in partisan corporate speech.

In summary, the evidence reviewed in this section shows that even financial news coverage is politically polarized and that speech by US corporations has become more partisan. Polarized news coverage generates disagreement among investors as well as larger trading volume, reflecting that partisans tend to "agree to disagree."

More research is needed to study the benefits and costs of firms taking political stances. Conway & Boxell (2024) show that firms taking social stances on controversial issues increase their revenues on average, but the effect is short lived. Analyses of stock price changes around political activism of firms and CEOs have yielded mixed results (e.g., Bhagwat et al. 2020, Homroy & Gangopadhyay 2023). Wu & Zechner (2024) provide new insights by developing a model of financial market equilibrium wherein investors have heterogeneous political preferences and derive nonpecuniary payoffs from their alignment with a firm's political stance. They demonstrate that corporate political stances arise endogenously in a competitive equilibrium with firm-value-maximizing managers, and they derive predictions for the relationship between firms' taking political stances and their expected stock returns. An interesting additional implication discussed by Wu & Zechner (2024) is that the presence of politically active large investors can generate welfare losses for small investors.

6. POLITICAL POLARIZATION AND FINANCE: A RESEARCH AGENDA

On many dimensions, Americans have become more polarized across partisan lines. For financial economists, this phenomenon raises the question of how political partisanship influences financial decisions, corporate policies, asset prices, and the economy more broadly. In this article, we have reviewed a growing literature examining those questions and the overall conclusion is that partisanship is pervasive and affects financial decisions in a variety of settings. Despite the growing evidence, many open questions remain, and we close with some suggestions for future research.

6.1. Aggregate and Real Effects

Even though many studies have documented the importance of partisanship in shaping the financial decisions of individuals and trading volume, very few have explored the aggregate effects of partisan biases on equilibrium asset prices, price efficiency, or the transmission of fiscal and monetary policy. Jha, Koudijs & Salgado (2024) provide evidence from a historical setting to show that political beliefs do not always wash out in aggregate and can indeed influence asset prices even in thick markets. They show that, during the Prussian Army's Siege of Paris (1870–1871), the price of the French sovereign bond differed between the Bourse in Paris and elsewhere and that this difference was persistent, despite being "the most widely held financial asset in France and the most actively traded financial asset in continental Europe" (Jha, Koudijs & Salgado 2024, p. 3).

Another crucial missing piece is how a growing partisan bias of executives and intermediaries, or a growing political homogeneity of teams, may causally influence firm-level performance and corporate policies, such as decisions related to firm investment, financing, CSR, and political giving.

6.2. Economic Mechanism

An important area of research is understanding the underlying economic mechanisms behind the above-documented partisan alignment effects. With regard to political alignment with the government, it is crucial to understand the extent to which the disagreement is driven by heterogeneous beliefs about specific government policies (e.g., the effectiveness of regulation or tax cuts) or by general economic sentiment effect. Some of the evidence to date points toward a more general economic sentiment explanation. For example, Kempf & Tsoutsoura (2021) find that it is alignment with the president that matters for rating decisions, not alignment with Congress. Moreover, evidence obtained by Kempf et al. (2023), in one of the few studies conducted in an international setting, suggests that it is not only alignment on economic policies that matters for cross-border capital allocation by institutional investors, but also alignment on social policies, such as the views of the military and traditional morality. However, alignment on social policies may proxy for harder-to-measure differences in economic policies; therefore, more research is needed to disentangle the importance of different policies in generating disagreement versus the role of sentiment.

With regard to political alignment between individuals, one of the most pressing issues is to disentangle how much of the observed partisan assortative matching is driven by partisans having a preference for working with like-minded individuals and how much is driven by in-group partisans sharing a preference for the same types of firms. The answer to this question is relevant both for policymakers and for firms that are interested in attracting talent, as firms' stances on divisive topics such as ESG, gun control, or reproductive rights may play a role in employees' decision to join a firm, thereby affecting the allocation of talent (Cen, Qiu & Wang 2022; Colonnelli et al. 2023). It is also important to understand when (and in which settings) partisan sorting can lead to inefficient outcomes.

DISCLOSURE STATEMENT

The authors are not aware of any affiliations, memberships, funding, or financial holdings that might be perceived as affecting the objectivity of this review.

ACKNOWLEDGMENTS

We are grateful to William Cassidy, Maarten Meeuwis, and William Mullins for sharing their comments. We also thank Terry Cheng and Anushri Jain for excellent research assistance.

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