

# POLITICAL PRESSURE ON THE FED

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## MOTIVATION

- ▶ Renewed attention to political dimension of U.S. monetary policy
  - ▶ Trump's tweets moved markets (Bianchi et al., 2023)

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  - ▶ Limited use of modern macro identification techniques
- ▶ This paper:
  - ▶ Identifies shocks to political pressure on the Fed over time
  - ▶ Quantifies effects on inflation and other macro variables

## THIS PAPER

- ▶ Newly collected archival data
  - ▶ Personal interactions between U.S. Presidents and Fed Officials 1933–2016
  - ▶ Amount, length, type of interactions → construct long time series
- ▶ Narrative identification
  - ▶ Exploit variation from Nixon and Johnson administrations
  - ▶ SVAR with narrative sign restrictions → “political pressure shocks”

## PREVIEW OF FINDINGS

When the President pressures the Fed to ease monetary policy . . .

1. Inflation and inflation expectations increase gradually and strongly
2. Insignificant response of real economic activity
3. Transmission is different from typical monetary policy expansion

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*50% as much pressure as Nixon, for six months, raises U.S. price level by 7%*

## DATA CONSTRUCTION AND DESCRIPTIVE EVIDENCE

## DATA SOURCE

- ▶ Daily calendars of U.S. Presidents provided by *Presidential Libraries*
- ▶ Available online or on site – quality varies
- ▶ With RAs, collect **all interactions of Presidents with Fed Officials 1933-2016**

# EXAMPLE OF PRESIDENTIAL SCHEDULE

THE WHITE HOUSE		THE DAILY DIARY OF PRESIDENT JIMMY CARTER	
LOCATION		DATE (Mo., Day, Yr.)	
THE WHITE HOUSE WASHINGTON, D.C.		JULY 19, 1980	
		TIME DAY	
		5:30 a.m. SATURDAY	
TIME	PHONE	ACTIVITY	
From	To		
5:30		R	The President received a wake up call from the White House signal board operator.
6:06			The President went to the Oval Office.
8:00	8:01	P	The President talked with the First Lady.
8:08			The President returned to the second floor Residence.
8:15			The President and the First Lady had breakfast.
8:31			The President returned to the Oval Office.
9:10	9:12		The President participated in a photo opportunity with: Mrs. Carol Anderson, Plains, Georgia Jill Anderson, daughter Tim Lawson, Americus, Georgia Mrs. Tim (Peggie) Lawson Wendi Lawson, daughter Hazel Lawson, daughter Lorri Lawson, daughter
9:12			The President went to the South Grounds.
9:13	9:20		The President motored from the South Grounds to the Shoreham Hotel.
9:20			The President was greeted by: Clifford L. Alexander, Secretary of the Army Robert McIntosh, General Manager, Shoreham Hotel  The President, escorted by Secretary Alexander, went to the VIP Room.
9:22	9:29		The President met with: Secretary Alexander Mrs. Clifford L. (Adele) Alexander Gen. Edward C. Meyer, Chief of Staff, U.S. Army Mrs. Edward C. (Carol) Meyer Lt. Col. Matt Urban, U.S. Army and recipient of the Medal of Honor Mrs. Matt (Jennie) Urban Jennifer Urban, daughter Eris Johnson, daughter Ms. Sophia Rockwell, governess
9:29	9:49		The President participated in a ceremony to present the Medal of Honor to Lt. Col. Urban. Members of the press

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THE WHITE HOUSE		THE DAILY DIARY OF PRESIDENT JIMMY CARTER	
LOCATION		DATE (Mo., Day, Yr.)	
SHOREHAM HOTEL WASHINGTON, D.C.		JULY 19, 1980	
		TIME DAY	
		9:29 a.m. SATURDAY	
TIME	PHONE	ACTIVITY	
From	To		
9:30			The President went to the offstage announcement area.
9:32	9:38		The President went to the podium inside the Regency Ballroom. The President addressed approximately 1,200 guests attending the presentation.
9:44			The President presented the Medal of Honor to Lt. Col. Urban. The President returned to his motorcade. He was escorted by Secretary Alexander.
9:49	9:53		The President motored from the Shoreham Hotel to the South Grounds of the White House.
9:54			The President returned to the Oval Office.
10:15	10:35		The President met with Chairman of the Board of Governors of the Federal Reserve System, Paul A. Volcker.
10:37	10:38	P	The President talked with the First Lady.
10:40		P	The President telephoned his daughter, Amy Carter. The call was not completed.
10:44			The President went to the doctor's office.
10:52	10:57	H	The President talked with Amy Carter.
10:59			The President returned to the Oval Office. Enroute, he greeted: Richard I. Queen, released U.S. Hostage Barold Queen, father, resident of Lincolnville Beach, Maine Mrs. Harold (Jeanne) Queen Alexander Queen, brother Warren M. Christopher, Deputy Secretary of State.
11:02			The Presidential party went to the Oval Office.
11:02	11:50		The President met with: Mr. Queen Mr. and Mrs. Harold Queen Mr. Alexander Queen Deputy Secretary Christopher The First Lady
11:02	11:40		
11:02	11:40		
11:02	11:50		
11:13	11:30		

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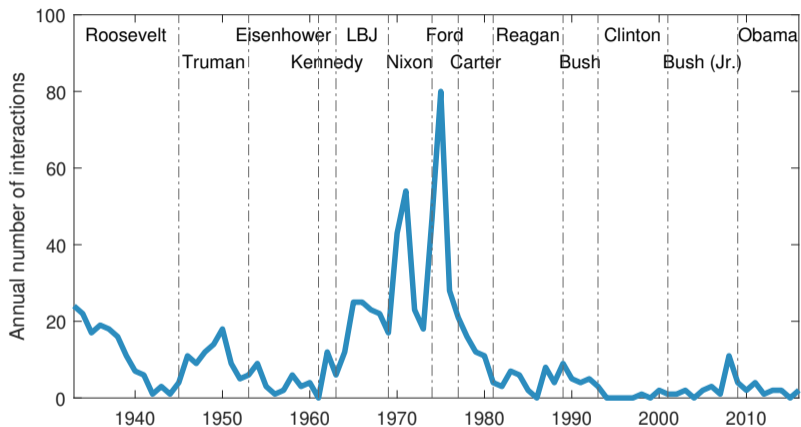
# EXAMPLE OF PRESIDENTIAL SCHEDULE (ZOOMED IN)

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## BASIC STATISTICS

- ▶ 857 personal interactions from 1933 to 2016
- ▶ Average length 53 minutes
- ▶ 92% with Fed chair, 8% with other Fed Officials
- ▶ 36% are 1-on-1 interactions
- ▶ 11% are on Saturdays or Sundays
- ▶ **Enormous variation through time...**

## PRESIDENT-FED INTERACTION COUNT THROUGH TIME



- ▶ Clinton: 6 interactions in 8 years; Nixon: 160 interactions in 5.5 years
- ▶ Second half of 1971: Nixon speaks with Burns on average every 5 days

## IDENTIFICATION STRATEGY

## NARRATIVE IDENTIFICATION

- ▶ **Challenge:** personal interactions do not necessarily capture political pressure
- ▶ **Solution:** find increases in President-Fed interactions that ...
  - ▶ ... took place for political reasons only, i.e. is plausibly exogenous
  - ▶ ... arguably impacted monetary policy
- ▶ Exploit two historical episodes in SVAR
  - ▶ Main specification: Nixon's pressure on Burns in 1971
  - ▶ Additional variation: LBJ's pressure on Martin in 1967

## NIXON'S APPOINTMENT OF ARTHUR BURNS

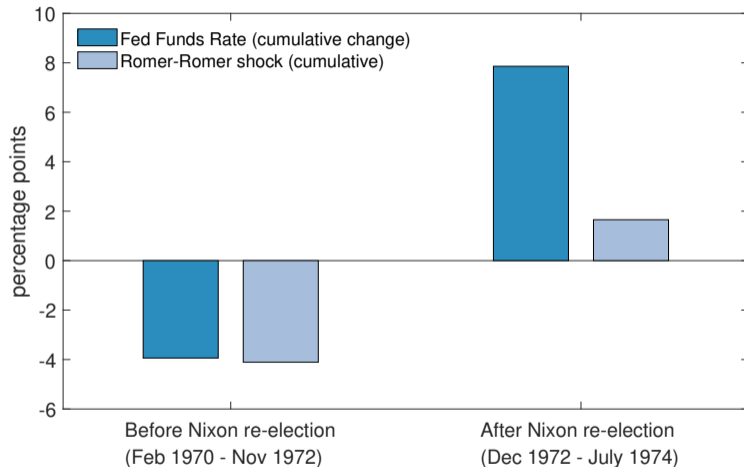


- ▶ Nixon during Arthur Burns' swearing-in ceremony in 1970:  
"I respect his independence. However I hope that – *independently* – he will conclude that my views are the ones that should be followed."

## SOME QUOTES FROM ARTHUR BURNS' DIARY

- ▶ “I am convinced the President will do anything to be reelected.” (March 1971)
- ▶ “I watched his face, as he spoke, with a feeling of dismay; for his features became twisted and what I saw was uncontrolled cruelty.” (July 1971)
- ▶ “I got a stern letter from the President urging me start expanding the money supply and predicting disaster if this didn't happen.” (Oct 1971)
- ▶ “President at this meeting again expressed his concern about the money supply. I reminded him that I was looking after that properly.” (Nov 1971)

## NARRATIVE IDENTIFICATION: CORROBORATING EVIDENCE



## DEFINITION OF POLITICAL PRESSURE SHOCK

- ▶ Long quarterly data (Ramey and Zubairy, 2018) + President-Fed interactions
- ▶ Narrative sign restrictions (Antolin-Diaz and Rubio-Ramirez, 2018)

Variable	Traditional sign restrictions	Narrative restrictions
President-Fed interaction count	+	1971:Q3, 1971:Q4
3-month T-bill rate	-	
Log GDP deflator	+	
Log real GDP		
Log government expenditures		
Nom. Deficit / Nom. GDP		

- ▶ SVAR different from event study: can 'detect' shock anywhere in sample

## POLITICAL PRESSURE VS. MONETARY POLICY SHOCKS

- ▶ Assume one period;  $\pi$ : inflation,  $i$ : interest rates,  $x$ : President- Fed interactions

$$\pi = \phi_{\pi i}i + \phi_{\pi x}x + \varepsilon^{\pi}$$

$$i = \phi_{i\pi}\pi + \phi_{ix}x + \varepsilon^i$$

$$x = \phi_{x\pi}\pi + \phi_{xi}i + \varepsilon^x$$

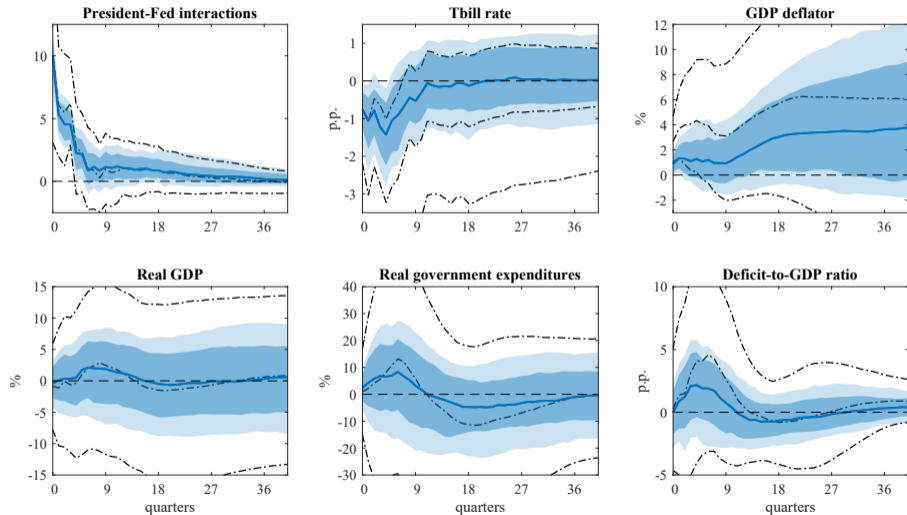
- ▶ Rewrite second equation: 
$$i = \frac{\phi_{i\pi} + \phi_{ix}\phi_{x\pi}}{1 - \phi_{ix}\phi_{xi}}\pi + \frac{\phi_{ix}\varepsilon^x + \varepsilon^i}{1 - \phi_{ix}\phi_{xi}}$$
- ▶ “Romer-Romer”: regress  $i$  on  $\pi$  and get residual  $\xi^m = \frac{\phi_{ix}\varepsilon^x + \varepsilon^i}{1 - \phi_{ix}\phi_{xi}}$
- ▶ If President has no effect on Fed, then  $\phi_{ix} = 0$  and  $\xi^m = \varepsilon^i$
- ▶ Goal is to separately uncover  $\varepsilon^x$  with data on  $x$  and appropriate restrictions
- ▶ Transmission is different from  $\varepsilon^i$ , in particular if  $\phi_{\pi x} \neq 0$

## RESULTS

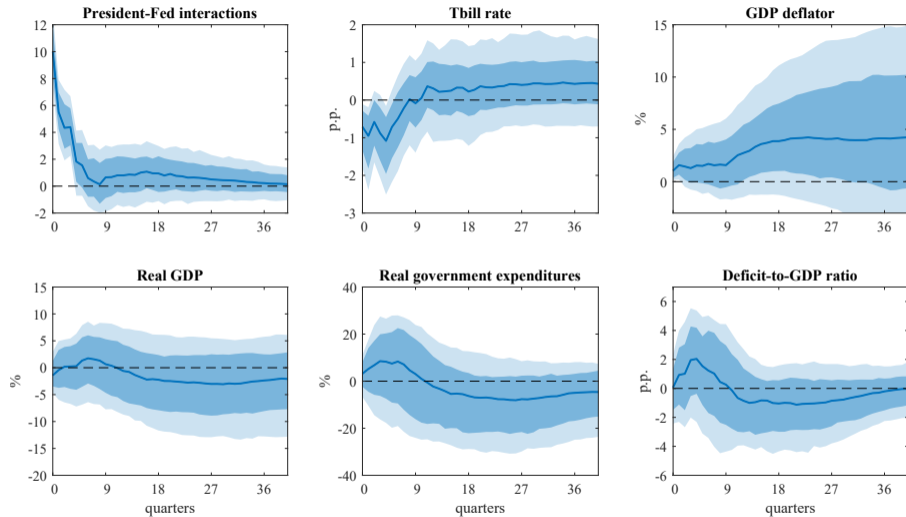
# IMPULSE RESPONSE FUNCTIONS

CHOLESKY

EVENT STUDY



# IRFS OVER 1933-1987 SAMPLE OTHER SAMPLES

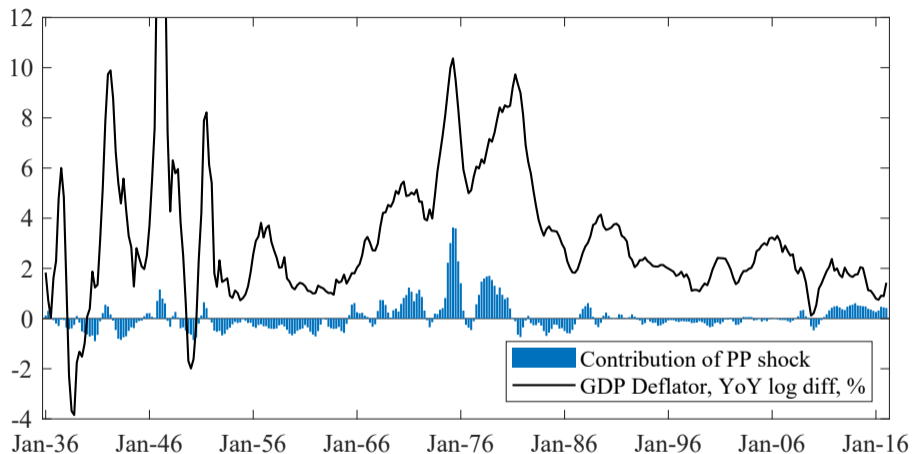


► Political pressure not “successful”? popularity

# HISTORICAL VARIANCE DECOMPOSITION

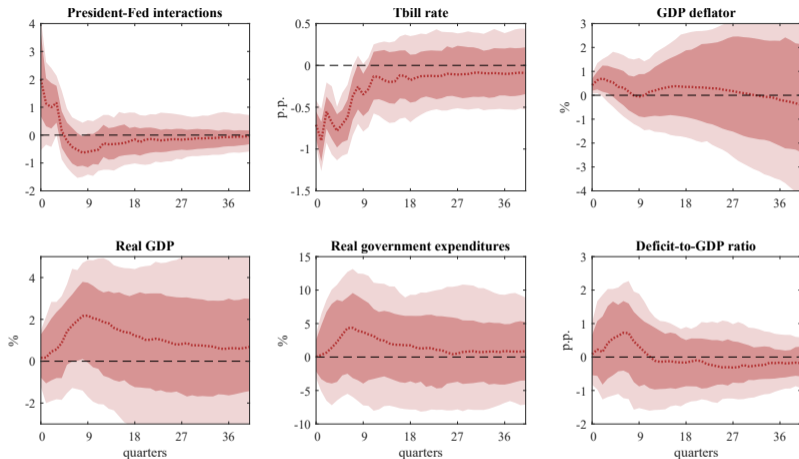
SHOCK SERIES

OTHER DECOMPS



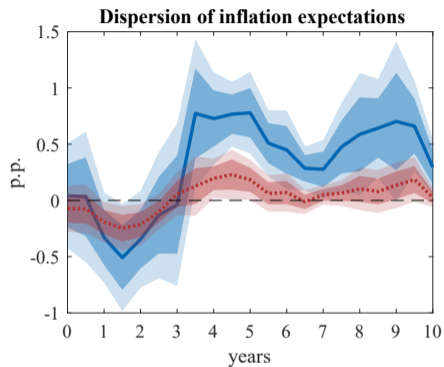
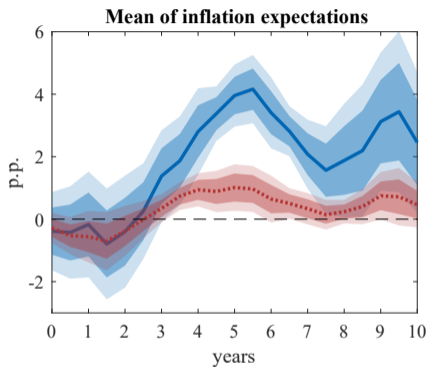
- Evidence of political pressure shock affecting 1970s inflation, less elsewhere

# IRFS TO 'STANDARD' MONETARY POLICY SHOCK 1933-1987



- ▶ In pre-Greenspan sample, monetary easing increases real activity
- ▶ Response of inflation is less pronounced than for political pressure shock
- ▶ Confirms that the transmission of the two shocks is very different

## EFFECTS ON INFLATION EXPECTATIONS



- ▶ Political pressure shock (blue) raises inflation expectations and disagreement
- ▶ Stronger effect than for monetary policy shock (red)

# IS POLITICAL PRESSURE PUBLICLY OBSERVED?

## INSIDE THE MARKET: Wall Street Fears Whiplash From Nixon-Burns Collision

Schonberger, Ernest A

*Los Angeles Times (1923-1995); Feb 28, 1971; ProQuest Historical Newspapers: Los Angeles Times*  
pg. J1

### INSIDE THE MARKET

# Wall Street Fears Whiplash From Nixon-Burns Collision

BY ERNEST A. SCHONBERGER, Times Staff Writer

INVESTORS are suddenly casting a watchful eye for signs of just how serious a confrontation might be brewing between the Federal Reserve Board and economic officials within the Nixon Administration.

The issue: Just how rapidly should the economy be pumped up?

Some expect a head-to-head fight. Others shrug it off.

Most agree there's little likelihood of an immediate blow to the stock market.

Fed Chairman Arthur F. Burns brought it into the open last week by refusing to pledge further expansion of the money supply in support of President Nixon's goal of rapid economic growth for 1971. The Fed, although it sometimes acts hand-in-glove with a presidential administration, is a completely independent, semigovernmental agency. Its policies determine the supply of money and credit.

Administration officials have been

claiming the money supply would have to grow 6 to 9% this year to meet their economic target.

In testimony before the Joint Economic Committee of Congress Burns said rates above 5 or 6% have historically "intensified inflationary pressures" if continued "for a long period of time." He labeled the Administration's goal of a \$1.065 trillion Gross National Product for 1971 "optimistic."

"You would have to term it (Burns' testimony) something of a confrontation," says Richard B. Bailey, a trustee for the \$2 billion Massachusetts Investors Trust mutual fund.

That would seem to be the case. Both John B. Connally, secretary of the Treasury, and Herbert Stein, a member of the President's Council of Economic Advisors, have already reacted to Burns' testimony contentiously. They insist that the money

supply should be expanded more rapidly.

WALL STREETERS have been saying for a year that the Nixon Administration would pull all economic stops early enough to do some good for the 1972 elections. And the same observers have been saying that this is not in step with the generally conservative Fed whose members enjoy long term appointments and don't have to seek election.

Claude Rosenberg, president of Rosenberg Capital Management Co. of San Francisco and author of the book, "Stock Market Primer," says future developments between Burns and the Administration will be "very much a key to the stock market."

He thinks a confrontation, although not a monumental one, is brewing. Underlying this will probably be the Administration's fear that unemployment won't come down, says the money manager.

Rosenberg notes that "business can improve on the order of 5 or 10%—without very much increase in employment." And the corollary to that would be little help for the unemployed.

For now, Rosenberg isn't letting the hassle alter his positive attitude toward the stock market and the \$60 million he manages in it.

BUT IT'S HIS feeling that if and when the Administration succeeds in getting business rolling—"let's say in the fall"—the Fed will counteract by hitting the brakes on the money supply.

At that juncture, investors may have to be quick on the trigger and move at least partly out of stocks and into cash, he feels.

William G. Wagner of Janus Management Co. of Los Angeles is less concerned about the ramifications of Burns' statements.

"I don't think there's any significant conflict," he says. "It's not important if they're going to push up the money supply greatly (5 or 6%) or very greatly (more than 6%). Who cares—so long as it's going up a large amount."

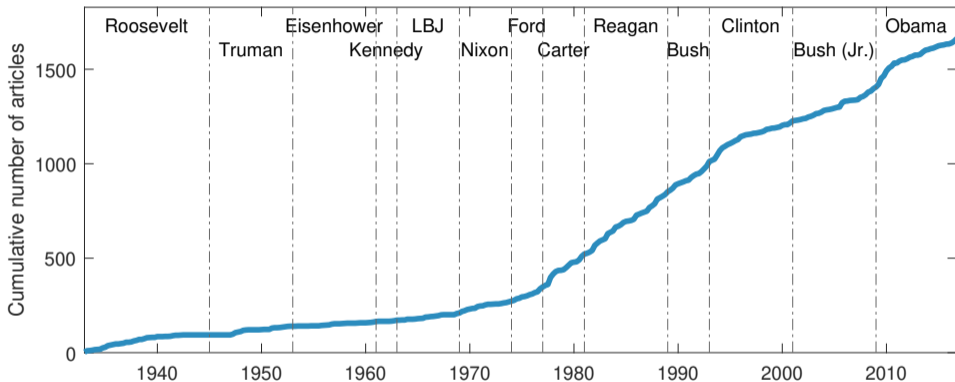
At any rate, that influences his stock market thinking for much of 1971 and into 1972. He recognizes that any money management errors are apt to be on the side of overexpansion. However, "after the election, we've got to watch out," he says.

Joseph F. Dorsey, president of Argus Research Co. in New York, thinks there's "no big dispute." As he sees it, the Fed has been working on conservative projections—"don't forget that the money supply grew very slowly in January." Therefore, the Fed has leeway to move more in the direction of the Administration's goals and still stay within the annual rate of 5 or 6%, he says.

Please Turn to Page 2, Col. 3

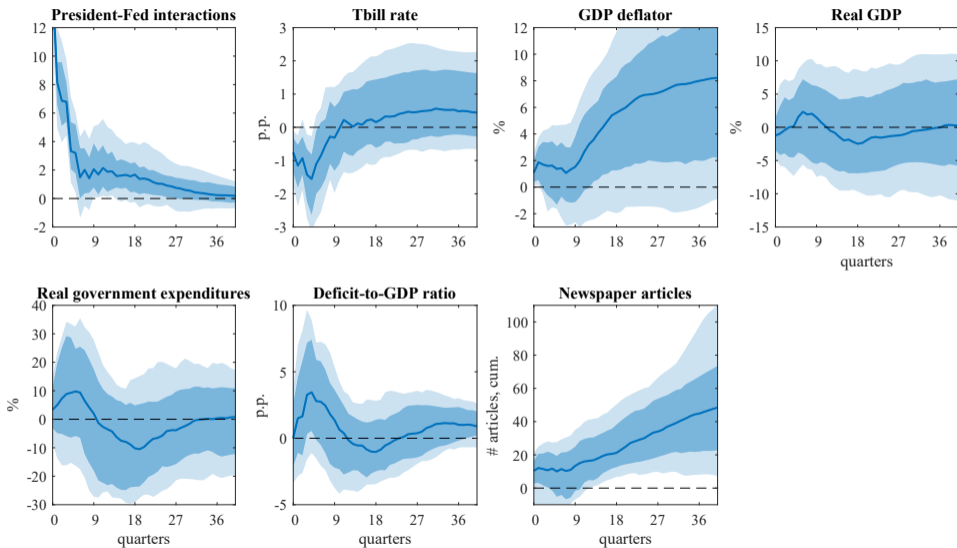
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## NEWS ARTICLES ABOUT FED PRESSURE (CUMULATED)



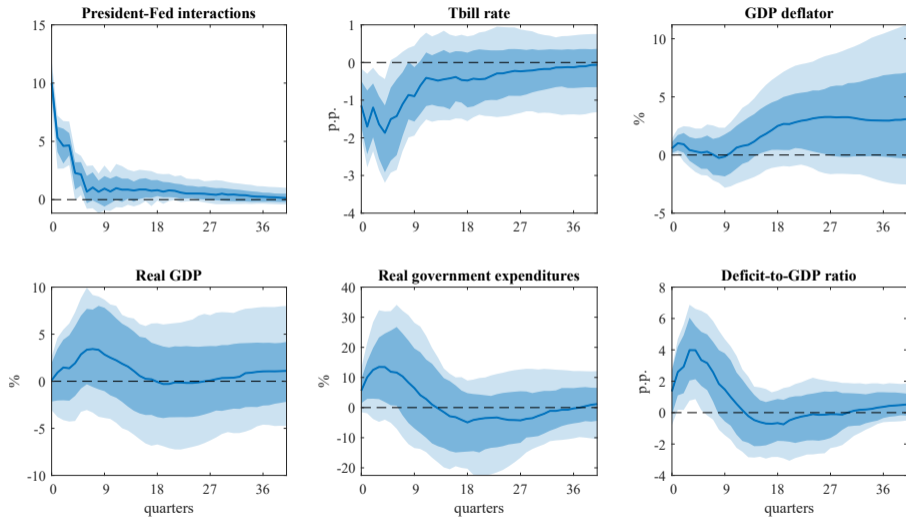
- ▶ Based on systematic search of New York Times, Washington Post, Wall Street Journal

# IRFS WITH SIGN RESTRICTION ON NEWS ARTICLES

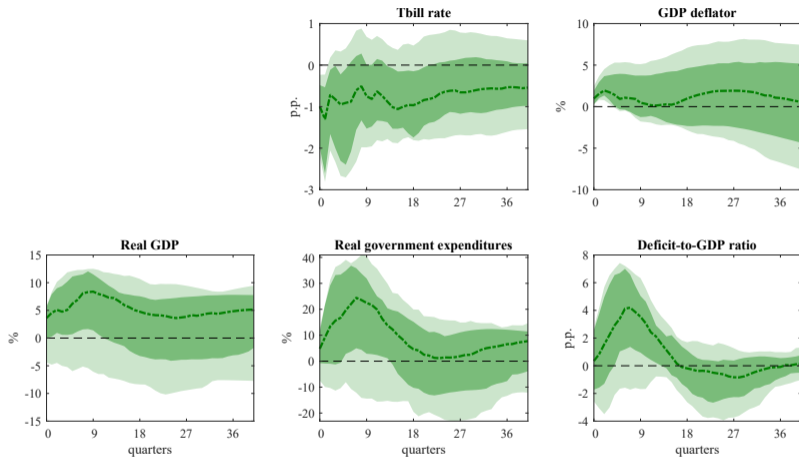


## ADDITIONAL RESULTS

# POLITICAL PRESSURE SHOCK IDENTIFIED FROM NIXON + LBJ



# IRFS TO GENERIC 1971 INFLATIONARY SHOCK



- ▶ Effect on price level smaller and much less persistent (for roughly similar rate reduction)
- ▶ Highlights that personal interaction data key to my results

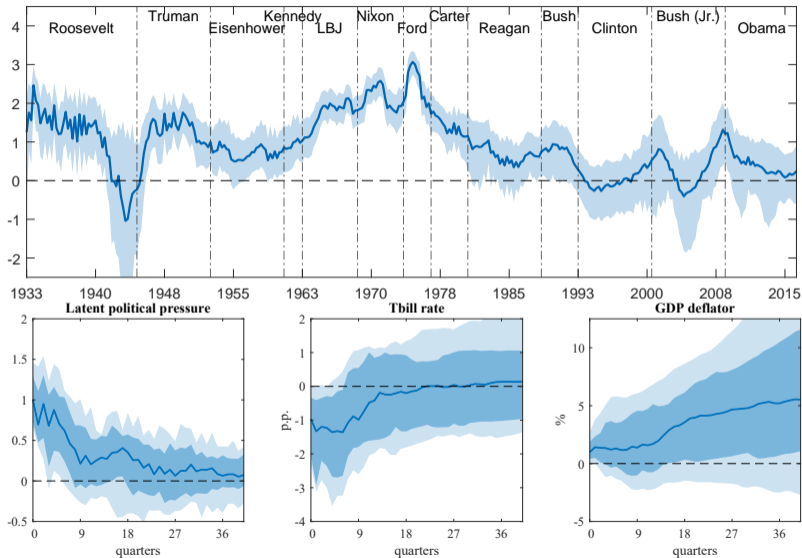
## MODELING COUNT DATA & ALLOWING FOR NONLINEARITIES

- ▶ President-Fed interactions are count variable instead of continuous
- ▶ Not Gaussian: long periods of little movement, other periods with spikes
- ▶ Formal framework to take this into account:

$$\begin{bmatrix} \mathbf{y}_t \\ x_t^* \end{bmatrix} = \begin{bmatrix} \mathbf{B}_1 & \mathbf{b}_2 \\ \mathbf{b}_3 & b_4 \end{bmatrix} \begin{bmatrix} \mathbf{y}_{t-1} \\ x_{t-1}^* \end{bmatrix} + \begin{bmatrix} \mathbf{u}_1 \\ u_{x^*} \end{bmatrix}.$$

$$\Pr(x_t | \lambda_t) = \frac{(\lambda_t)^{x_t} e^{-\lambda_t}}{x_t!} \quad \text{with} \quad \lambda_t = \exp(x_t^*),$$

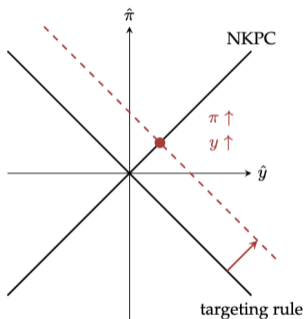
# MODELING COUNT DATA & ALLOWING FOR NONLINEARITIES



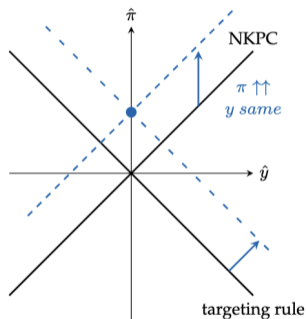
## THEORETICAL DISCUSSION

# THEORY - SIMPLE NEW KEYNESIAN ARITHMETIC

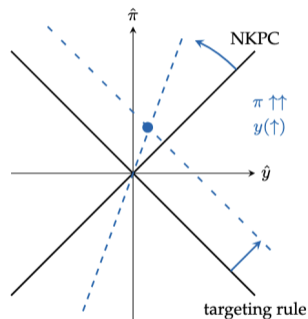
(a) Pure monetary expansion



(b) With NKPC shift



(c) With NKPC steepening



## THEORY - POLITICAL PRESSURE MODELED EXPLICITLY

- ▶ Barro and Gordon (1983): “inflation bias”
  - ▶ Steady state equilibrium vs. transition dynamics
- ▶ Recent contributions:
  - ▶ Halac and Yared (2021)
  - ▶ Witheridge (2023)
  - ▶ Afrouzi, Halac, Rogoff, and Yared (2024)

## CONCLUSION

## CONCLUSION

- ▶ Novel data and narrative identification → political pressure shocks
- ▶ **Quantitative results**
  - ▶ President acts 50% as bad as Nixon for 6 months ⇒ price level rises by 7%
- ▶ Benefits of central bank independence often highlighted using cross-country data; I provide supporting evidence **for the US through time**
- ▶ I make the new data and estimated shocks available on my website

## OUTLOOK

<b>Year</b>	<b>U.S. President</b>	<b>Federal Reserve Chair</b>	<b>Personal Interactions</b>
2017	Donald J. Trump	Janet Yellen	1
2018	Donald J. Trump	Jerome Powell	0
2019	Donald J. Trump	Jerome Powell	5
2020	Donald J. Trump	Jerome Powell	3
2021	Joseph R. Biden	Jerome Powell	2
2022	Joseph R. Biden	Jerome Powell	1
2023	Joseph R. Biden	Jerome Powell	0
2024	Joseph R. Biden	Jerome Powell	0

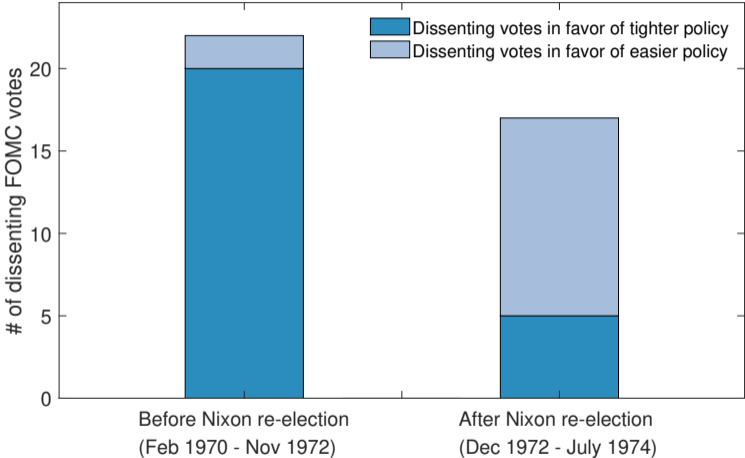
► Source: Fed Chair calendars

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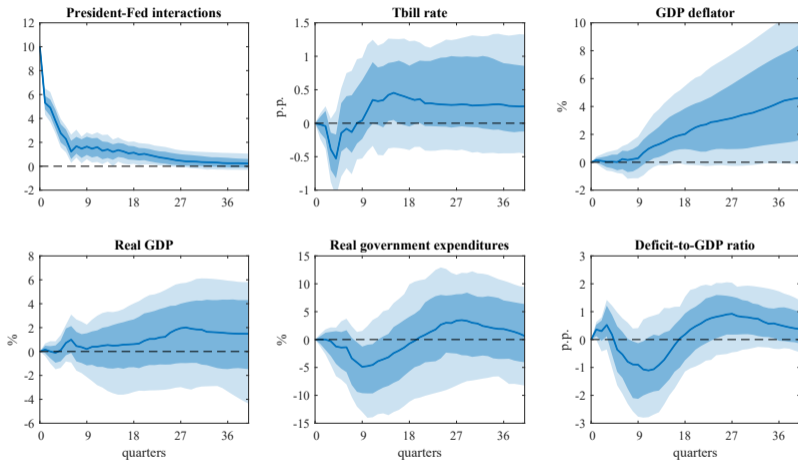
## APPENDIX SLIDES

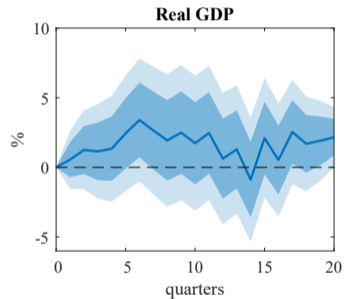
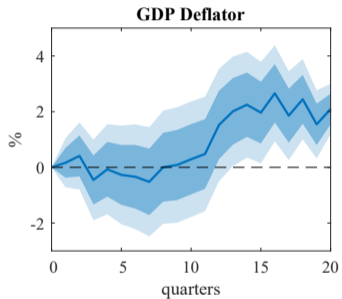
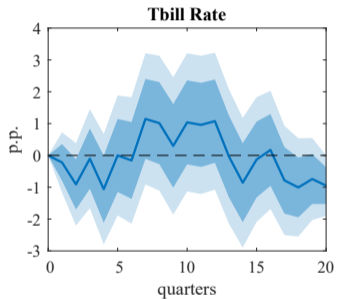
# NARRATIVE IDENTIFICATION: CORROBORATING EVIDENCE



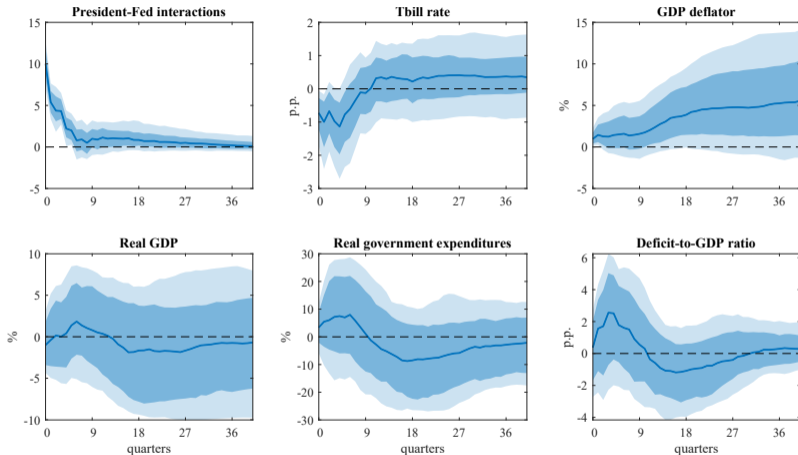
# IRFS BASED ON CHOLESKY (INTERACTIONS ORDERED LAST)

BACK



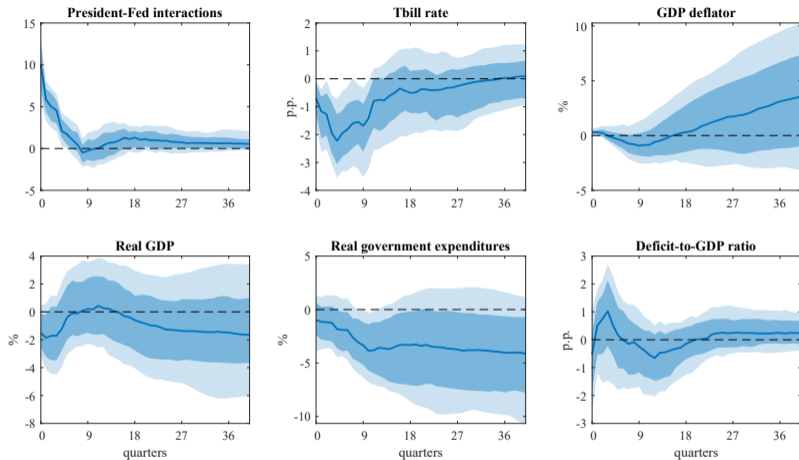


# IRFS OVER 1933-2008 SAMPLE [BACK](#)



► Stopping before 2008 gives similar to stopping in 2016

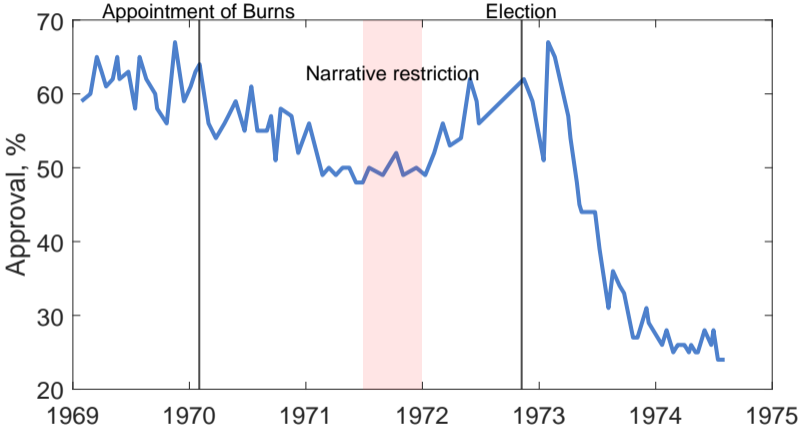
# IRFS OVER 1952-2016 SAMPLE [BACK](#)



- ▶ Starting after 1952 gives different results
- ▶ Variation from before the Treasury-Fed accord appears to be important for the results

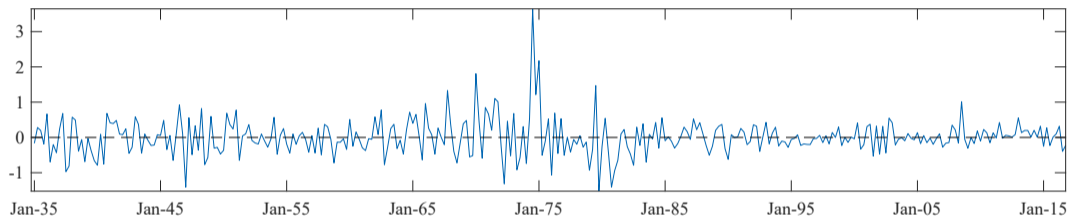
# NIXON'S POPULARITY

[BACK](#)



► Source: Gallup Polls

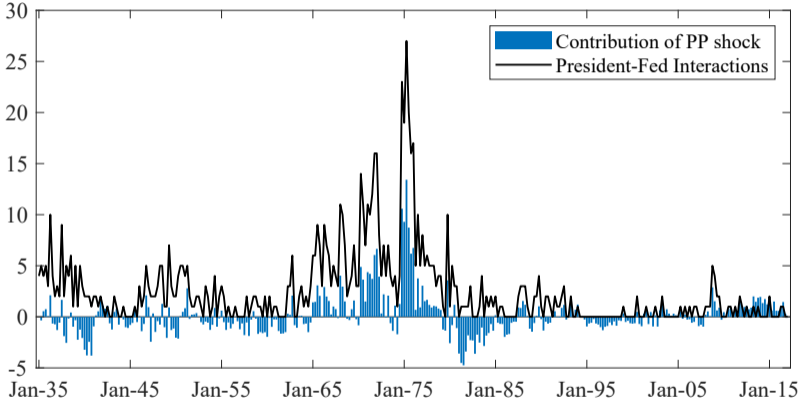
## ESTIMATED SHOCKS OVER 1933-2016 SAMPLE



- ▶ Huge spike in the 1970's, much less volatile after the mid-1980's

[back](#)

# HISTORICAL VARIANCE DECOMPOSITION: INTERACTION VARIABLE



[back](#)