ESTIMATING THE EFFECTS OF POLITICAL PRESSURE ON THE FED:
A NARRATIVE APPROACH WITH NEW DATA

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March 2024
MOTIVATION

- Renewed attention to the political dimension of U.S. monetary policy
  - Trump’s pressure affected market expectations (Bianchi et al., 2023)
  - Discussions of recent inflation surge, increasingly politicized appointments, ...

- Relevant empirical research:
  - Cross-country studies, e.g. Alesina and Summers (1993)
  - Estimated regime-switching DSGE models, e.g. Bianchi and Ilut (2017)

- 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
  - SVAR with narrative sign restrictions → “political pressure shock”
  - Exploit variation from Nixon and Johnson administrations
Political pressure shocks . . .

1. Strongly and persistently raise inflation
2. Have little to no effect on other macro variables
3. Differ from expansionary monetary policy shocks
4. Materialize throughout 1933-2016 sample, though mostly in 1970’s
Political pressure shocks . . .

1. Strongly and persistently raise inflation
2. Have little to no effect on other macro variables
3. Differ from expansionary monetary policy shocks
4. Materialize throughout 1933-2016 sample, though mostly in 1970’s

50% as much pressure as Nixon, for six months, raises U.S. price level by 8%
DATA CONSTRUCTION AND DESCRIPTIVE EVIDENCE
DATA SOURCE

- Daily calendars of U.S. Presidents provided by *Presidential Libraries*
- Itemized log with time, place, duration, type of interaction, person(s) and title(s)
- Available online or on site – quality varies, often manual reading required
- With RAs, collect all interactions of Presidents with Fed Officials 1933-2016
- When possible, cross-check with calendars of Fed chairs (from FRASER)
<table>
<thead>
<tr>
<th>TIME</th>
<th>ACTIVITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>9:29</td>
<td>a.m. S A T U R D A Y</td>
</tr>
<tr>
<td>5:30</td>
<td>The President received a wake up call from the White House signal board operator.</td>
</tr>
<tr>
<td>6:06</td>
<td>1</td>
</tr>
<tr>
<td>8:00</td>
<td>1</td>
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<tr>
<td>8:08</td>
<td>1</td>
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<td>8:15</td>
<td>1</td>
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<td>9:11</td>
<td>1</td>
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<tr>
<td>9:12</td>
<td>1</td>
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<tr>
<td>9:13</td>
<td>1</td>
</tr>
<tr>
<td>9:20</td>
<td>1</td>
</tr>
<tr>
<td>9:20</td>
<td>The President was greeted by: Clifford L. Alexander, Secretary of the Army. Robert McNichol, General Manager, Shoreham Hotel. Gen. Edward C. Meyer, Chief of Staff, U.S. Army. Deputy Secretary Christopher.</td>
</tr>
<tr>
<td>9:29</td>
<td>1</td>
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<tr>
<td>TIME</td>
<td>ACTIVITY</td>
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<tr>
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<td>-------------------------------------------------------------------------</td>
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<tr>
<td>9:30</td>
<td>The President went to the offstage announcement area.</td>
</tr>
<tr>
<td>9:32</td>
<td>The President went to the podium inside the Regency Ballroom.</td>
</tr>
<tr>
<td>9:38</td>
<td>The President addressed approximately 1,200 guests attending the presentation.</td>
</tr>
<tr>
<td>9:44</td>
<td>The President presented the Medal of Honor to Lt. Col. Urban.</td>
</tr>
<tr>
<td>9:49</td>
<td>The President returned to his motorcade. He was escorted by Secretary Alexander.</td>
</tr>
<tr>
<td>9:53</td>
<td>The President motored from the Shoreham Hotel to the South Grounds of the White House.</td>
</tr>
<tr>
<td>9:54</td>
<td>The President returned to the Oval Office.</td>
</tr>
<tr>
<td>10:15</td>
<td>The President met with Chairman of the Board of Governors of the Federal Reserve System, Paul A. Volcker.</td>
</tr>
<tr>
<td>10:37</td>
<td>The President talked with the First Lady.</td>
</tr>
<tr>
<td>10:40</td>
<td>The President telephoned his daughter, Amy Carter. The call was not completed.</td>
</tr>
<tr>
<td>10:44</td>
<td>The President went to the doctor's office.</td>
</tr>
</tbody>
</table>
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
- 16% happen in social settings, e.g. dinner
- Enormous variation 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
MULTI-DIMENSIONAL INFORMATION

More stats  Martin (2015)
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
Before his re-election, Richard Nixon pressured Arthur Burns to ease policy

- Evidence from “Nixon Tapes” (Abrams, 2006)
- Evidence from Arthur Burns’ “secret diary” (Ferrell, 2010)

Burns, a Republican and friend to Nixon, arguably gave in to Nixon’s pressure

- Corroborated by unsystematic monetary easing in 1971 (Romer and Romer, 2004b)
- Corroborated by voting patterns in the FOMC (Thornton and Wheelock, 2014)
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.”
Phone conversation between Nixon and George Shultz, Nixon’s economic advisor

Nixon: “Do you feel, as far as Arthur and the money supply, we got that about as far as we can turn it right now, have we? I mean as far as my influence on him, that’s what I’m really asking.”

Shultz: “Yeah. Well, you know he said that he, that they voted to increase it [the money supply].”
“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

Before Nixon re-election
(Feb 1970 - Nov 1972)
After Nixon re-election
(Dec 1972 - July 1974)

Fed Funds Rate (cumulative change)
Romer-Romer shock (cumulative)

percentage points

Before Nixon re-election
(Feb 1970 - Nov 1972)

After Nixon re-election
(Dec 1972 - July 1974)
NARRATIVE IDENTIFICATION: CORROBORATING EVIDENCE

Before Nixon re-election (Feb 1970 - Nov 1972)

Dissenting votes in favor of tighter policy

After Nixon re-election (Dec 1972 - July 1974)

Dissenting votes in favor of easier policy

nixon-burns personnel discussions
different views about burns
DEFINITION OF POLITICAL PRESSURE SHOCK

- Long quarterly data (Ramey and Zubairy, 2018) + President-Fed interactions
- Use narrative sign restriction method (Antolin-Diaz and Rubio-Ramirez, 2018)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Traditional sign restrictions</th>
<th>Narrative restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Log GDP deflator</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>3-month T-bill rate</td>
<td>(−)</td>
<td></td>
</tr>
<tr>
<td>Log real GDP</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Log government expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nom. Deficit / Nom. GDP</td>
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</tbody>
</table>

- SVAR different from event study: can ‘detect’ shock anywhere in sample
Assume one period; $\pi$: inflation, $i$: interest rates, $x$: President-Fed interactions

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

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

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

Rewrite second equation:

$$i = \frac{\phi_i + \phi_{i x} \phi_x}{1 - \phi_{i x} \phi_{i i}} \pi + \frac{\phi_{i x} \varepsilon^x + \varepsilon^i}{1 - \phi_{i x} \phi_{i i}}$$

“Romer-Romer”: regress $i$ on $\pi$ and get residual $\xi^m = \frac{\phi_{i x} \varepsilon^x + \varepsilon^i}{1 - \phi_{i x} \phi_{i i}}$

If President has no effect on Fed, then $\phi_{i x} = 0$ 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
10 more personal interactions per quarter ⇒ price level 5% higher after 10 years

Effect on other variables not distinguishable from zero

Narrative restriction sharpens identification (red vs. gray bands)
In pre-Greenspan sample: negative effect on activity, government spending and deficit

Political pressure not “successful”?
ESTIMATED SHOCKS OVER 1933-2016 SAMPLE, BASELINE

- Huge spike in the 1970's, much less volatile after the mid-1980's
Evidence of political pressure shock affecting 1970s inflation, less elsewhere
Here I follow Antolin-Diaz and Rubio-Ramirez (2018): 1979:Q4 as narrative restriction

Effect on price level is smaller and much more transitory (for same Tbill reduction)
In pre-Greenspan sample, monetary easing increases real activity
Opposite of political pressure shock in same sample
Confirms that the transmission of the two shocks is very different
OTHER MACROECONOMIC SHOCKS IN 1971

- Objection to my narrative approach: other macroeconomic events in late 1971
  - For example, the end of Bretton Woods exchange rate arrangement
- Design a test based on alternative SVAR
  - Exclude President-Fed interaction data
  - Put narrative sign restriction on 1973:Q3-Q4 inflation
- Estimates a generic “1971 inflationary shock”
  - Would be worrying if IRFs look similar to political pressure shock
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
Political pressure shock raises inflation expectations and disagreement
EFFECTS ON INFLATION EXPECTATIONS

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 to the open last week by refusing to pledge future 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, semi-governmental 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 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. Balch, a trustee for the $2 billion Massachusetts Investors Trust mutual fund.

That would seem to be the case both with the Committee on 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 appointment and don't have to seek election.

Claude Rosenberg, president of Rosenberg Capital Management Co., in San Francisco and author of the "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%). That 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 P. Darby, president of Argus Research Co. in New York, thinks there's "no big dispute." 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.
LBJ’S PRESSURE AS A SECOND NARRATIVE RESTRICTION

- Heavy pressure by LBJ on Fed Chair William McChesney Martin
- Clear episodes in both 1965 and 1967 (Fessenden, 2016; Meltzer, 2009a)
- Less clear whether Martin actually reacted
- Martin later openly regretted the 1967:Q1 easing after “deal” with LBJ
Similar inflation response, tighter posterior bands
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 8%

- Benefits of central bank independence often highlighted using cross-country data; I provide supporting evidence for the US through time

- I make the new time series available on my website
REFERENCES


REFERENCES II


APPENDIX SLIDES
SUMMARY STATS: 1on1 VS OTHER

<table>
<thead>
<tr>
<th>Interaction is 1on1</th>
<th>Other people are present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of interactions</td>
<td>Total duration (hours)</td>
</tr>
<tr>
<td>300</td>
<td>500</td>
</tr>
<tr>
<td>100</td>
<td>500</td>
</tr>
</tbody>
</table>

The chart shows a comparison between 1on1 interactions and interactions with other people present, indicating the number of interactions and total duration in hours.
WEEKEND INTERACTIONS: COUNT AND LENGTH (IN H)
SOCIAL INTERACTIONS: COUNT AND LENGTH (IN H)
Cover longer time period and calendars that are only physically available (Bush)
Include wider set of Fed Officials
Collect interaction characteristics: length, social nature, weekday, etc.
Going to higher than annual frequency
Most importantly, use formally for identification
The diary only became public in 2008

Entries cover meaningful interactions and/or when Burns was worried or angry

For example, large gap in entries before November 1970; it is a good guess that pressures start around there

Burns himself writes in 1973 that “August 15, 1971 was a definite and decisive turning point in the President’s state of mind.”

Also, there is a big break between February and September 1972

Burns stopped writing the diary altogether after Nixon resigned
“He was still the emperor, and I should therefore toe the mark.” (July 1971)

“There was little room for any doubt (...) that he was governed mainly, if not entirely, by a political motive; (...) that the kind of changes we were discussing (...) were essential for the campaign of 1972” (Aug 1971)

“President called and asked me to come over within an hour. Hastily rearranged my schedule and spent an hour and quarter with him.” (Sep 1971)

“What a dangerous game RN is playing” (Nov 1971)

“Clearly he wants power (...) but I don’t think he has any positive idea at all as to what to do with this power.” (Sep 1972)
"Some talk followed about the inadequacies of Hayes and Brimmer. And the President indicated he would do what he could to rid me of Brimmer." (Jan 1972)

Alfred Hayes: NY Fed President. Andrew Brimmer: Member of Federal Reserve Board.

"We talked about personnel problem at Fed. President knew that Rogers would not have Brimmer for U.N. We talked about an ambassadorship; President thought that Sweden – preferably Austria – would be possibilities. I expressed strong doubt about Brimmer accepting an African post." (Feb 1972)
DIVERSE VIEWS ON WHETHER BURNS GAVE IN TO PRESSURE

- Accounts that agree with the view I portray here:
  - Abrams (2006), Meltzer (2009b)

- Different, at at least more nuanced, views:
    - Main argument is that Burns had a “nonmonetary view of inflation”
    - These accounts were provided before Burns’ diary was made public in 2008

- One has to acknowledge: 1970’s *stagflation* was a pretty new challenge
DIFFERENT VIEWS ON WHETHER BURNS GAVE IN TO PRESSURE

▶ FOMC voting behavior at least hard to reconcile with the “nonmonetary” view being the standard view of the time

▶ Romer-Romer easing shock: policy easing was nonsystematic!

▶ Burns’ diary makes clear there was a multidimensional discussion between Burns and Nixon, touching on fiscal policy, restructuring the intl. monetary system, etc.
  ▶ Burns cared deeply about some of those issues
  ▶ Conceivable that increase in monetary supply was part of a “give and take”

▶ Even if Burns did not cave, expectations of economic agents could have been changed by Nixon’s behavior to the degree that it was publicly observable
  ▶ Burns’ diary makes clear that Press was well aware of the pressures (see next slide)
  ▶ See also Bianchi, Gomez-Cram, Kind, and Kung (2023)
Some quotes from Burns’ diary about the public’s perception

“The confrontation reported or predicted by the Press did not come off.”

“(…) the White House children ought to stop the dangerous game of feeding gossip and fabrication to the Press.”

“Recently, a journalist came to see me and told me that some White House operatives (specifically, Haldeman and Shultz) had their bayonets out for me.”
Stronger effect when interest rate unrestricted ⇒ price level 7% higher after 10 years
Stopping before 2008 gives similar to stopping in 2016
Starting after 1952 gives different results.

Variation from before the Treasury-Fed accord appears to be important for the results.
NIXON’S POPULARITY

Source: Gallup Polls
HISTORICAL VARIANCE DECOMPOSITION: INTERACTION VARIABLE
Systematic search of NY Times, Wash Post, WSJ