

Discussion:

Estimating the Effects of Political Pressure on the Fed: A Narrative Approach with New Data

Thomas Drechsel

University of Maryland

Amy Handlan

Brown University

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Paper Overview

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Paper Overview

- ▶ Overall, I enjoyed reading the paper and learned a lot!
- ▶ New Data: meetings between presidents and Fed chairs
- ▶ Narrative Approach: close readings to find interactions that:
 1. Political in nature (not response to economy)
 2. Impacted monetary policy stance
- ▶ Political-pressure shock identification in SVAR:
 - Sign restrictions: \uparrow meetings, \uparrow inflation, \downarrow interest rates
 - Narrative: Nixon pressuring Burns to ease monetary policy (1971 Q3-Q4)
- ▶ Finding: Political-pressure shock $\implies \uparrow$ inflation over long horizon
 - But little change in output

Presentation Outline

- ① Overview
- ② News and Political Pressure
- ③ News and Inflation Surprise
- ④ Many Inflationary Shocks of 1970s

News coverage and Interactions

- ▶ Media covers meetings between President and the Fed Chair
- ▶ But also coverage of pressure/influence:

Washington Post, Jan 10, 1971. "Nixon Presses Burns For Monetary Expansion."

Boston Globe, Feb 26, 1971. "Pressure on Fed Heightens: Nixon Men Push for Money Expansion."

Los Angeles Times, Feb 28, 1971. "Wall Street fears Whiplash From Nixon-Burns Collision."

New York Times, July 29, 1971. "Nixon and Burns Termed At Odds."

Chicago Tribune, Aug 2, 1971. "Report of Effort to Alter The Fed Deliberately Leaked."

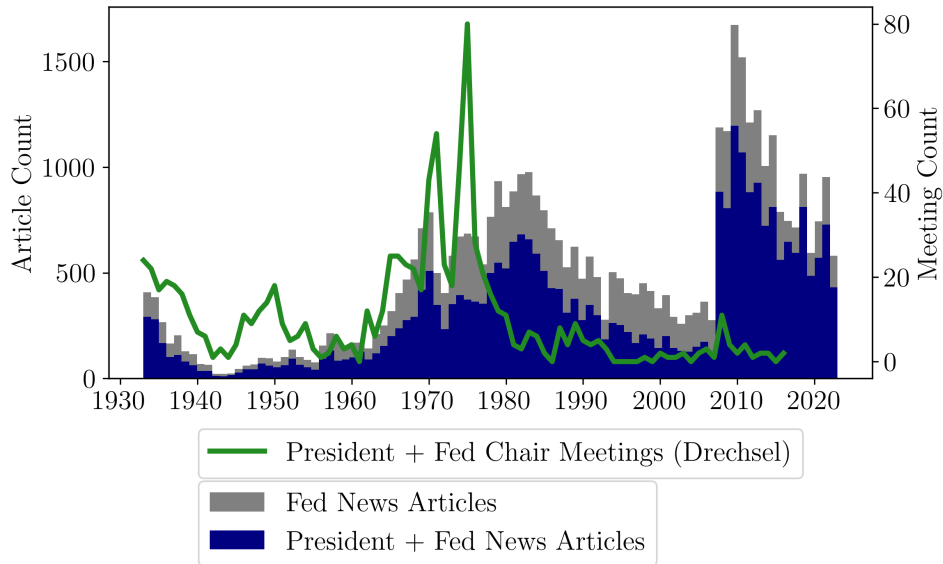
Washington Post, Aug 15, 1971. "The President and the Fed: Cooperation or Conflict?"

New York Times, Oct 9, 1971. "Federal Reserve Is Called Upon To Resist Pressure for Monetary Growth."

Boston Globe, Nov 23, 1971. "Nixon lines up scapegoats"

- ▶ Additional data: track newspaper articles about President + Federal Reserve
 - Article counts (1933 - 2021): NYT, WSJ, WP
 - Similar patterns to the President-Chair meeting count

News and Interactions



Comment: Private vs Public Pressure?

- ▶ Comparison of public announcements/actions also as a form of pressure
 - Announcing new policy with expectation Fed will accommodate
 - Use public perception to pressure Fed actions
 - "Force the hand" of monetary policymakers

- ▶ Public and private methods may substitute for pressuring Fed
 - Role for different types could be interesting!
 - Especially if plan to expand to Trump presidency (eg, twitter)

Public Pressure Example: Trump

Fed, Pressed by Trump to Cut Rates, Faces Fire No Matter What It Does



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By [Jeanna Smialek](#)

July 9, 2019

WASHINGTON — The Federal Reserve's meeting this month was never going to be an easy one given that officials remain split over when — or whether — to cut interest rates. The last few weeks could set the Fed up for an even more difficult call.

President Trump has put the Fed under a microscope, jawboning officials for months to cut rates and calling the central bank America's "most difficult problem" in a series of [posts on Twitter](#) on July 5.

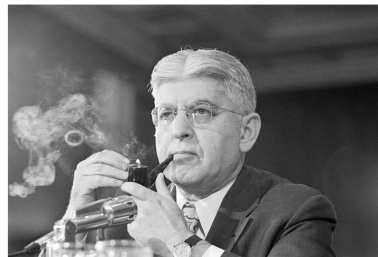
The Fed's chair, Jerome H. Powell, and his colleagues say they ignore politics when making decisions. But if they do reduce interest rates, [as markets expect](#), some slice of the Fed-watching public will interpret that as a sign that they have caved under pressure even as job gains remain solid and [economic growth is still strong](#).

If they stand pat, they'll deliver an unwelcome surprise to markets and could incur the White House's wrath.

Trump Isn't the First President to Make War on the Federal Reserve

Nixon bullied his Fed chair into lowering interest rates — a political move that wrecked the economy for years.

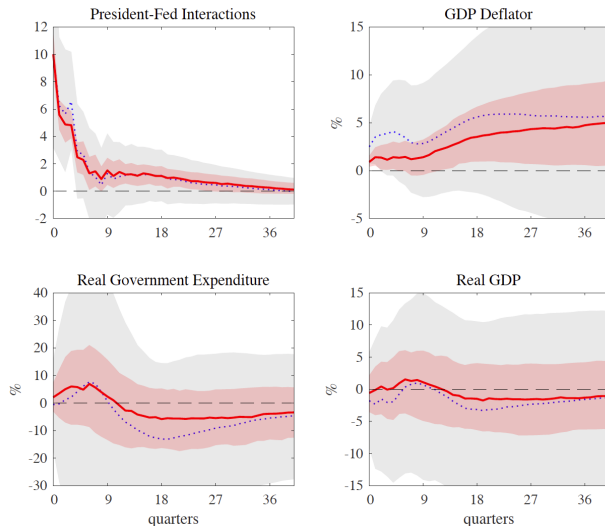
Nov. 16, 2019



Federal Reserve Chairman Arthur Burns in 1972. Bettmann Archive/Getty Images

News and Inflation Surprise

- ▶ News coverage of pressure from president may help rationalize IRFs
 - Inflation response
 - Lack of output response
- ▶ In Barro-Gordon style framework:
 - Output stimulated with inflation surprise
 - News of political pressure “ruined the surprise”



News and Inflation Surprise: Simple Framework

- ▶ Political pressure represented by ω
- ▶ Suppose central bank sets inflation π (monetary policy)

$$\mathcal{L}^{CB} = \mathbf{E} \left[(y - b)^2 + \lambda (\pi - \pi^* - \omega)^2 \right]$$

to balance inflation targeting π^* , and output gap y and bias b

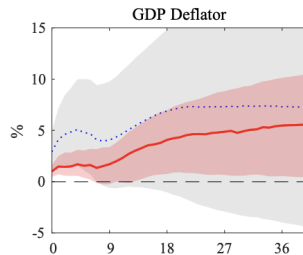
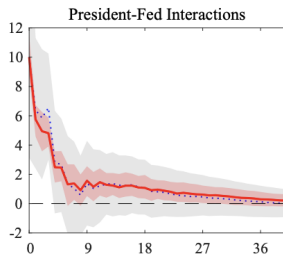
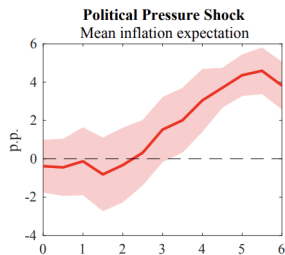
- ▶ Public expectations over inflation : $x = \mathbf{E}^P[\pi|\omega]$
- ▶ Phillips curve: $y = s(\pi - x)$
- ▶ Political pressure leads to higher inflation

$$\pi = s^2 x + b + \pi^* + \omega$$

And elevating $x \implies$ shrinks effect on output

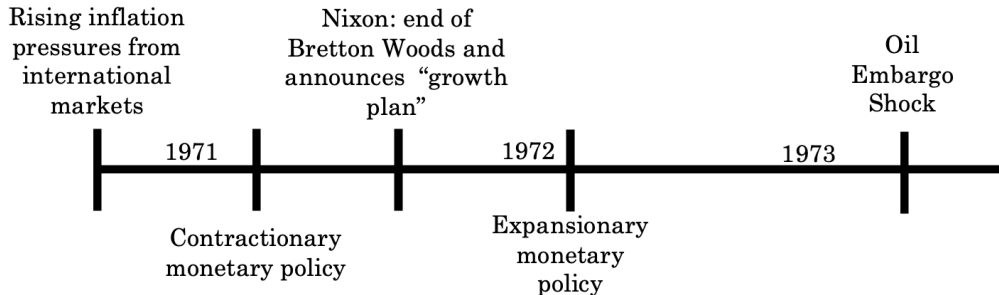
Comment: Timing of Inflation and Expectations

- ▶ "Long and variable lags" of monetary policy → delay policy effects
- ▶ Quick responses implied by sign restrictions:
 - Public political pressure → inflation expectations → inflation
- ▶ Recommend alt. specification from appendix:
 - Inflation (+) after 4 quarters instead of on impact



1970s and other Shocks

- ▶ Many inflationary shocks in this period
- ▶ Challenge: disentangling how much comes from political pressure



Comment: Consider Additional Restrictions

- ▶ Consider 1973 restriction: inflation shock from oil embargo
 - Rule out oil shock driving elevated IRF for GDP deflator
 - Unrestricted oil prices could still attribute oil-inflation to 1971 political-pressure

- ▶ Consider 1972 restriction: interest rate from change in Fed preferences
 - **Romer & Romer (2023)** cite 1972Q1 as an expansionary shock
 - Narrative: FOMC viewed unemployment to be too high, worth inflation risk
 - Different from **Antolin-Diaz & Rubio-Ramirez (2018)** (1979Q4 tightening)

Conclusion

- ▶ I enjoyed reading this paper and learned a lot!
- ▶ Strong narrative evidence for exogenous pressures to ease monetary policy
 - Similarly found by Romer and Romer (2023)
 - Clarifying the quantitative responses for competing factors
 - Shift timing of inflation restriction for expectations timing
- ▶ Consider public vs private pressure mechanisms
 - Different implications for inflation expectations vs. output responses
 - Interesting parallels to Trump (if your planning on extending)

Thank You!

amy_handlan@brown.edu

<https://sites.google.com/view/amy-handlan>