The Fed, Interest Rates, and Presidential Elections

by David Brubaker

Summary

During every four-year presidential term, there is a period of 24 months when the Federal Reserve Board's actions on interest rates will have the most impact on the state of the economy during the next presidential election.

During the periods when their actions will most affect the state of the economy during the next presidential election season, the Fed's actions are diametrically opposite depending on the party currently in the White House; but at other times their interest rate actions are similar regardless of the party currently in power.

During that sensitive period of time in *every* presidential term since 1960, the Fed has acted to stimulate the economy if the incumbent is a Republican and to slow the economy if the incumbent is a Democrat. Through recession and boom, inflation and stability, deficits and surpluses, there is not a single exception to that partisan pattern.

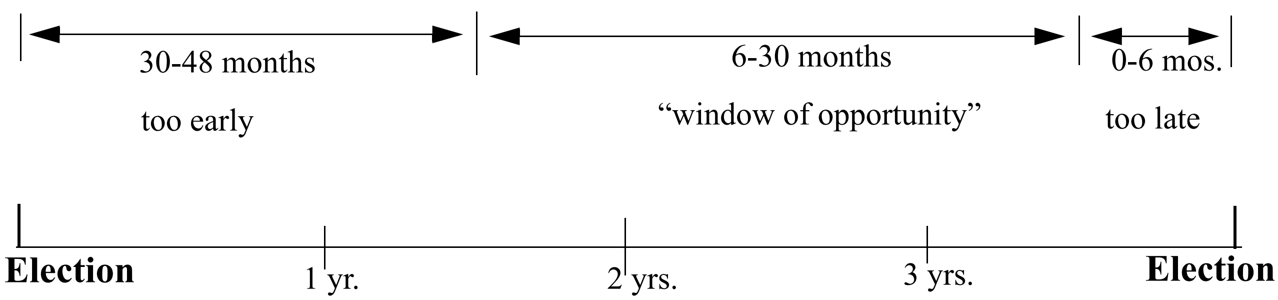
My conclusions: The Federal Reserve acts as a de facto agent of the Republican presidential campaign committee. All of Alan Greenspan's obscure statistics that no one else ever heard of are just a smoke screen to camouflage the Fed's blatantly partisan activity. The Fed seems to have deliberately induced a recession specifically to benefit the Republican presidential candidate in the 2000 election.

Background and Rationale

The following facts, assumptions, and/or generally believed propositions apply:

- When the economy is good during an election season, it works to the advantage of the current president's party in elections. When the economy is bad during an election season, it works to the disadvantage of the current president's party.
- When the Federal Reserve reduces interest rates, it stimulates the economy, making it seem to be good. When the Fed raises interest rates, it slows the economy, possibly into recession if they don't get the amount or timing right.
- It takes 6-18 months for Fed actions on interest rates to have their effect on the economy.
- A presidential election season is a period of about one year before the presidential election. People's memories are short enough that they don't pay much attention to the state of the economy for more than a year.

Given the third principle, if the Fed tried to use interest rates to manipulate the economy in order to affect presidential elections, then it would take its actions at least 6 months before a presidential election in order for its actions to have enough time to have the desired affect. Given the third and fourth principles together, it would act at most 30 months before the election (12 months to the beginning of the election season plus the maximum 18 months for its actions to have their effect). Any action later than 6 months before the election would be too late to affect the economy significantly by election day; any action earlier than 30 months before the election would have its effect before the election season begins in earnest. So we can look at a four-year presidential election cycle as including the following periods:



Given the principles and discussion above, if the Fed wanted to aid Republican presidential prospects, then we could expect it to lower interest rates during the window of opportunity period during Republican administrations, in order to stimulate the economy to make it seem strong and healthy, so that people are happy with the economy and the current ruling party. Similarly, they would raise rates during that period of Democratic administrations. During the "too late" and "too early" periods, we could expect their actions to be similar during either party's administrations, and to be their best judgment of what is good for the economy, as we are supposed to believe that they do all the time.

If the Fed did not try to influence elections by manipulating the economy, then we would expect their actions during the so-called windows of opportunity to be approximately the same during either party's administrations and about the same as during the other periods of a presidential term.

In fact, the analysis in this paper will show that during the window of opportunity periods, the Fed acts diametrically opposite depending upon which party has the White House, yet during the too-early-too-late periods, it acts substantially the same, regardless of who has the presidency.

(A side note is that the Fed seldom changes rates during the “too late” period to avoid the appearance of acting politically during election season, but their actions during that period wouldn’t have much impact on the election anyway because of the delayed reaction factor. So the “too late” period is also an “appearance of neutrality” period.)

Analysis of Data

This section summarizes the Fed’s actions to increase or decrease the discount rate during the cyclic periods of Democratic and Republican administrations from 1960 until now (June 2004, which is past the window of opportunity period of the Bush administration).

The summary tables in this section are based on the details in the section “Working Data Detail” on page 6, which in turn is based on the list of discount rates provided by the St. Louis Fed’s website at `http://research.stlouisfed.org/fred/data/irates/discntd8`. (Several of the regional Feds’ websites have similar data. I used St. Louis’s partly because their data goes back farther in time and partly because I found their format the easiest to work with.) All the periods are based on the election-to-election cycle shown in the time chart in “Background and Rationale” on page 2.

Here in Table 1 is a summary of the Fed’s actions on the discount rate during the “too early” and “too late” periods of Republican and Democratic administrations from 1960 to 2004. While it appears that the Fed is more active during the “non-sensitive” period of Republican administrations, it’s more active both raising and lowering rates. Also, the rate-lowering total is somewhat skewed by the unprecedented frequency and amount of lowering during one term (the present Bush term). Overall, there really isn’t any dramatic difference. The dramatic differences come later, when I analyze the window of opportunity periods.

Table 1: Discount rate actions during the “too early” and “too late” periods combined

Discount rate action (increase or decrease)	Democratic president		Republican president	
	Nbr. actions	Total basis points	Nbr. actions	Total basis points
Increase	7	375	15	825
Decrease	5	350	20	975

During the periods when Fed actions will have little or no effect on the next presidential election, there is little difference in the Fed’s actions during Republican vs. Democratic administrations. This is what one might reasonably expect to be true all the time, from a supposedly non-partisan, non-politically-biased institution. However, ...

Here's where it gets interesting.

During the periods when Fed actions can have significant effect on the next presidential election, there are dramatic differences between their actions during Republican administrations and their actions during Democratic administrations. The Fed's actions are diametrically opposite, depending on whether the current administration is Democratic or Republican.

During these opportunity periods, the Fed has almost uniformly raised rates to slow the economy during Democratic administrations and equally uniformly lowered rates to stimulate the economy during Republican administrations, during the last forty+ years.

Table 2 shows a summary of the Fed's actions during the "window of opportunity" periods of Republican and Democratic administrations from 1960 to 2004. During these periods, the Fed's actions are completely opposite, depending on whether the current president is a Democrat or a Republican.

Table 2: Discount rate actions during the "opportunity" periods

Discount rate action (increase or decrease)	**Democratic** president		**Republican** president	
	Nbr. actions	Total basis points	Nbr. actions	Total basis points
Increase	23	1175	3	125
Decrease	4	125	28	1050

The Fed's consistency in raising rates during the opportunity periods of Democratic administrations and lowering rates during the opportunity periods of Republican administrations is extraordinary. During every single presidential term since 1960, the net effect of their interest rate actions during the opportunity periods has fit that pattern. There is not a single exception!

Table 3 shows the net effect of Fed actions during the sensitive period of each presidential term from 1960 till now.

Table 3: Net discount rate changes during "opportunity periods," by term

Presidential term	**Rate increases**		**Rate decreases**		**Net basis points change**	
	Number	Basis points	Number	Basis points	Increase	Decrease
Kennedy/Johnson	1	+50			**+50**	
Johnson	3	+150	1	-50	**+100**	
Nixon1	1	+25	7	-175		**-150**
Nixon2/Ford			6	-250		**-250**
Carter	11	+650			**+650**	

Table 3: Net discount rate changes during "opportunity periods," by term (Continued)

Presidential term	Rate increases		Rate decreases		Net basis points change	
	Number	Basis points	Number	Basis points	Increase	Decrease
Reagan1	1	+50	7	-350		**-300**
Reagan2	1	+50	2	-100		**-50**
Bush I			6	-300		**-300**
Clinton1	2	+125	1	-25	**+100**	
Clinton2	4	+100	2	-50	**+50**	
Bush II			1	-50		**-50**

Additional Thoughts

There have been numerous instances when pundits have expressed thoughts such as "But Greenspan's such a hawk on inflation, why isn't he acting now?" and "But there's no inflation in sight; why is he acting as if there was?" These inconsistencies are always explained by his favoring of the third derivative of some obscure statistic that no one else ever heard of before. I suspect that these seeming inconsistencies can be more easily explained by presidential election cycles than by Greenspan's obscure statistics, which are probably just a smoke screen to hide highly partisan actions.

Some partisans would argue that raising rates during Democratic administrations is necessary because Democrats are spendthrift deficit spenders. That argument doesn't hold any water for two reasons: 1) Such reasoning doesn't explain why there is such a disparity between Fed actions during the opportunity phases but not during the too-early-too-late phases. 2) The worst deficits in history have been during the Reagan and Bush I (and now also the Bush II) administrations, when the national debt quadrupled, but the Fed was still lowering rates during the opportunity periods of those administrations and was raising rates during the opportunity period of the Clinton administration even though there was a surplus then.

The Fed's actions leading up to and immediately after the 2000 election seem especially suspicious. Six months before the election, the Fed had been raising rates for some time "to cool off the economy" and the economy had already slowed and was obviously starting to sink toward recession. However, in May 2000 (six months before the election) they made one last-ditch, larger-than-normal raise, that was clearly not needed to cool the already-cool economy and was apparently intended only to clobber the economy and hurt the Democratic candidate.

Then after the 2000 election, when the economy was clearly tanking and needed help, and the "appearance of neutrality" period was over, the Fed could have started lowering rates immediately after the election. However, the election was disputed and they waited until the very day that the electoral votes were counted and the result was certain before they started dramatically lowering rates. If their primary concern was helping the economy, then it didn't matter who won the election; they could have started acting right away as soon as the election was held. The clear implication is that if Gore had won, they intended to let the economy continue to sink to destroy a Gore presidency and they acted quickly and decisively to try to save the economy as soon as they knew for certain that Bush would be president.

Working Data Detail

This section lists the data used to calculate the tables in previous sections. The data in the "date," "rate," and "surcharge" columns is directly from the St. Louis Fed's website. The "basis-points-change" columns are my calculation (all done manually and may be subject to error). I inserted the divider lines to show the administrations and the relevant periods of administrations. Note once again that these periods are for cycles from election day to election day, so for example, the change on 19681220 (Dec. 20, 1968) is listed under Nixon's first term even though he hadn't yet taken office, because it was after the election. (In the summary tables that appear on earlier pages, I didn't include actions on the "surcharge" that was in effect briefly for a couple times in 1980-1981. It would have only accentuated the results anyway.) Red sections show Republican administrations and blue sections show Democratic ones; bold print shows the opportunity periods.

BASIC DISCOUNT RATE AND SURCHARGE

DATE RATE SURCHARGE BASIS-POINTS-CHANGE

==Kennedy/Johnson Dem.

-------------------------------------Begin "window of opportunity"

19630717 3.50 0 +50

-------------------------------------Begin "too late" "appearance of neutrality" period

==Johnson 2nd term Dem.

19641124 4.00 0 +50

19651210 4.50 0 +50

-------------------------------------Begin "window of opportunity"

19670414 4.00 0 –50

19671127 4.50 0 +50

19680315 5.00 0 +50

19680423 5.50 0 +50

-------------------------------------Begin "too late" "appearance of neutrality" period

19680830 5.25 0 –25

==Nixon 1st term Rep.

19681220 5.50 0 +25

19690404 6.00 0 +50

-------------------------------------Begin "window of opportunity"

19701111 5.75 0 –25

19701211 5.50 0 –25

19710108 5.25 0 –25

19710129 5.00 0 –25

19710213 4.75 0 –25

19710716 5.00 0 +25

19711111 4.75 0 –25

19711213 4.50 0 –25

-------------------------------------Begin "too late" "appearance of neutrality" period

==Nixon-2nd/Ford Rep.

19730115	5.00	0	+50	
19730226	5.50	0	+50	
19730427	5.75	0	+25	
19730511	6.00	0	+25	
19730611	6.50	0	+50	
19730702	7.00	0	+50	
19730814	7.50	0	+50	
19740426	8.00	0	+50	

-------------------------------------Begin “window of opportunity”

19741213	**7.75**	**0**	**−25**	
19750110	**7.25**	**0**	**−50**	
19750207	**6.75**	**0**	**−50**	
19750314	**6.25**	**0**	**−50**	
19750516	**6.00**	**0**	**−25**	
19760123	**5.50**	**0**	**−50**	

==Carter Dem.

19761126	5.25	0	−25	
19770830	5.75	0	+50	
19771026	6.00	0	+25	
19780113	6.50	0	+50	

....Begin “window of opportunity”

19780511	**7.00**	**0**	**+50**	
19780703	**7.25**	**0**	**+25**	
19780821	**7.75**	**0**	**+50**	
19780922	**8.00**	**0**	**+25**	
19781016	**8.50**	**0**	**+50**	
19781102	**9.50**	**0**	**+100**	
19790720	**10.00**	**0**	**+50**	
19790817	**10.50**	**0**	**+50**	
19790919	**11.00**	**0**	**+50**	
19791008	**12.00**	**0**	**+100**	
19800216	**13.00**	**0**	**+100**	
19800317	**13.00**	**3**		**+300**

-------------------------------------Begin “too late” “appearance of neutrality” period

19800507	13.00	0		−300
19800529	12.00	0	−100	
19800613	11.00	0	−100	
19800728	10.00	0	−100	
19800926	11.00	0	+100	

==Reagan 1st term Rep.

19801117	12.00	2	+100	+200
19801205	13.00	3	+100	+100
19810505	14.00	4	+100	+100
19810922	14.00	3		−100
19811013	14.00	2		−100
19811102	13.00	2	−100	
19811117	13.00	0		−200

19811204 12.00 0 −100

....Begin “window of opportunity”

19820721 11.50 0 −50
19820802 11.00 0 −50
19820816 10.50 0 −50
19820827 10.00 0 −50
19821012 9.50 0 −50
19821122 9.00 0 −50
19821214 8.50 0 −50
19840409 9.00 0 +50

---Begin “too late” “appearance of neutrality” period

===Reagan 2nd term Rep.

19841121 8.50 0 −50
19841224 8.00 0 −50
19850521 7.50 0 −50
19860307 7.00 0 −50
19860422 6.50 0 −50

....Begin “window of opportunity”

19860711 6.00 0 −50
19860822 5.50 0 −50
19870909 6.00 0 +50

---Begin “too late” “appearance of neutrality” period

19880809 6.50 0 +50

===Bush I Rep.

19890224 7.00 0 +50

---Begin “window of opportunity”

19901219 6.50 0 −50
19910204 6.00 0 −50
19910502 5.50 0 −50
19910917 5.00 0 −50
19911107 4.50 0 −50
19911224 3.50 0 −50

---Begin “too late” “appearance of neutrality” period

19920707 3.00 0 −50

===Clinton 1st term Dem.

....Begin “window of opportunity”

19940517 3.50 0 +50
19940816 4.00 0 +50
19941115 4.75 0 +75
19950201 5.25 0 +50
19960205 5.00 0 −25

---Begin “too late” “appearance of neutrality” period

===Clinton 2nd term Dem.

....Begin “window of opportunity”

19981015 4.75 0 −25
19981119 4.50 0 −25
19990824 4.75 0 +25
19991118 5.00 0 +25

20000203 5.25 0 +25
20000322 5.50 0 +25
--------------------------------------Begin “too late” “appearance of neutrality” period
20000518 6.00 0 +50
==Bush II Rep.
20010103 5.75 0 −25
20010105 5.50 0 −25
20010131 5.00 0 −50
20010321 4.50 0 −50
20010420 4.00 0 −50
20010516 3.50 0 −50
20010629 3.25 0 −25
20010823 3.00 0 −25
20010918 2.50 0 −50
20011003 2.00 0 −50
20011107 1.50 0 −50
20011212 1.25 0 −25
--------------------------------------Begin “window of opportunity”
20021107 0.75 0 −50
==
Original data from `http://research.stlouisfed.org/fred/data/irates/discntd8`. The layout of that site has changed since I extracted the data; the site no longer shows the information about the surcharges during 1980 and 1981.