

POLITICAL PRESSURES ON MONETARY POLICY DURING THE U.S. GREAT INFLATION

Web Appendix 5: Impact of political pressures on target federal funds rate

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Figure A5.1 compares the fitted values from the regression in the second column of Table 2 in the paper with the actual midpoint of the federal funds target, by FOMC meeting date, from 1969 to 1979.¹ The line with diamond markers is the actual midpoint of the federal funds target. The dashed line is the “notional” target rate: the fitted values from the second column in Table 2, excluding the persistence terms and political variables (i.e. the term in brackets in equation 1). The solid line is the notional target rate plus the effect of the political variables. This graph suggests that political variables had a small effect on the federal funds rate during this period. Although Table 2 shows that a statement by the Chair suggesting pressure to ease, for example, is associated with a 26 basis point reduction in the federal funds rate target – a fairly substantial effect – statements are fairly rare and so do not move the fitted value line substantially.

Figure A5.2 allows political pressure variables to have a persistent effect on the federal funds rate target. It plots the estimated federal funds target from column 2 of Table 2 for 1969 to 1979 with and without political variables. It includes the effect of the lagged estimated federal funds target, taking the target in the last two meetings of 1968 as given. The shaded areas correspond to periods of looser monetary policy discussed in the text: from Burns’ first meeting as Chair in February 1970 to the beginning of the first disinflation effort of the 1970s in January 1973; from the end of the first disinflation effort in October 1973 to the beginning of the second effort in March 1974; and from Jimmy Carter’s election in November 1976 to the mild tightening in August 1978.

¹ This figure is similar to Table 4 in Orphanides (2004).

Figure A5.1. Actual federal funds rate target and predicted notional targets

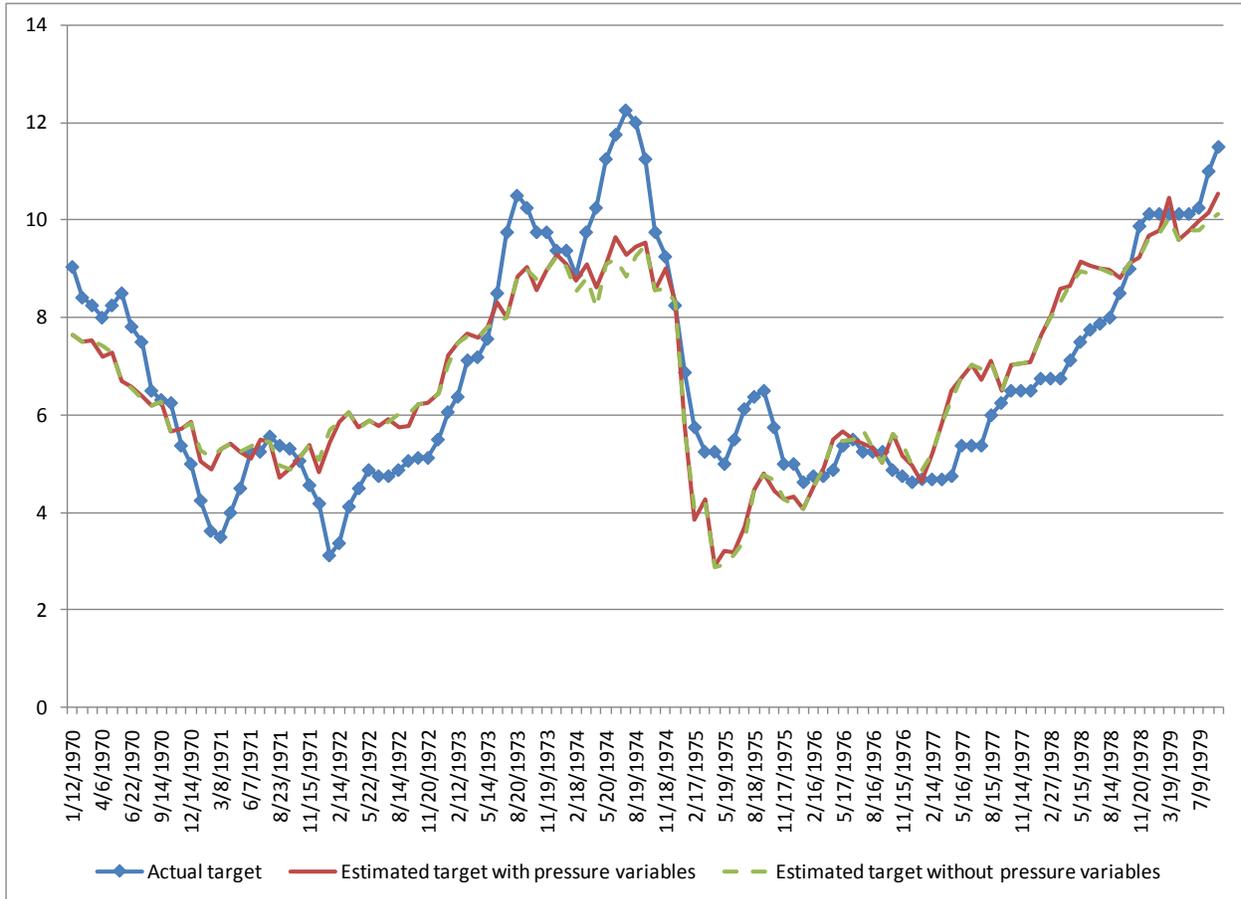
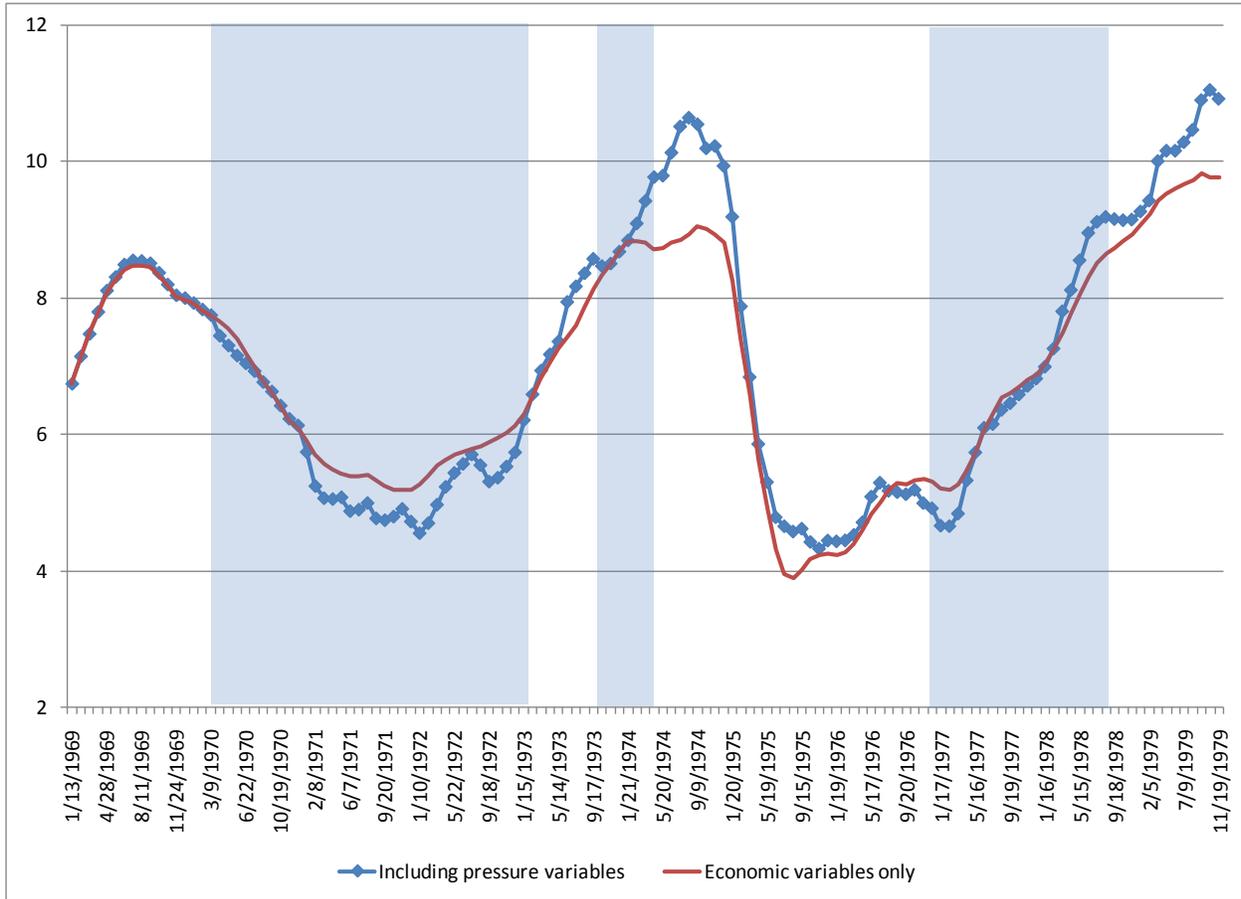


Figure A5.2. Predicted federal funds rate target with and without political variables



Shaded areas are periods of ease: February 1970 – January 1973, October 1973 – March 1974, November 1976 – August 1978.