Partisan Fed

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June 22, 2026

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- Under the new Chair, there is no change in interest rates
- His/her reasoning: growth is stronger than expected, inflation lower than expected
- We plug the Chair's output and inflation forecasts into a Taylor rule
- 14bp of the 25bp difference is explained by the Taylor rule
- We conclude there is a 25bp - 14bp = 11bp political easing

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- Contributions
  - New data covering FOMC members' political affiliations
  - Diff-in-diff using Presidential transitions and members' political alignment
  - Attractive design: uses within-member variation between aligned and misaligned
  - Estimate effects of alignment on individual views and decisions
  - Estimate effects of alignment on committee decisions and economic effects

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- **Creative, thought-provoking, and competently executed paper**

PLAN FOR MY DISCUSSION

1. How political are FOMC members?
2. Thoughts about Taylor rule estimation
3. Discussion of magnitudes
4. How worried should the findings make us?

1. How political are FOMC members?

Panel A: Political Affiliation by Measure Source	
	Contributions
Democrats	24
Independents	30
Republicans	26
Max Contribution ($)	292,908
Min Contribution ($)	500
Median Contribution ($)	8,493.5

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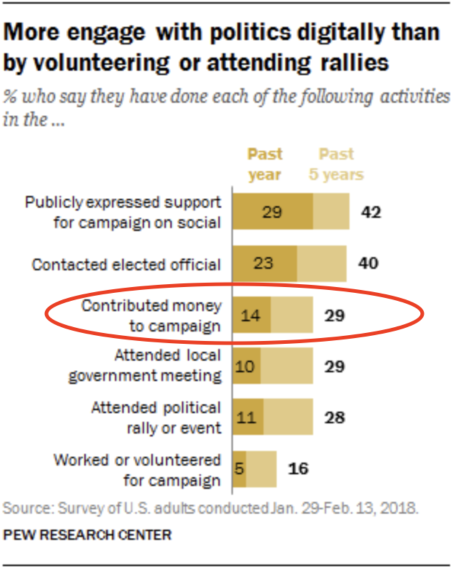
compared to 29 / 100 Americans ← (in last 5 years)



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- Two findings
  1. Aligned FOMC members favor easier monetary policy
  2. Aligned FOMC report more optimistic macroeconomic forecasts
- Natural question: does 2. explain 1.?

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  1. Aligned FOMC members favor easier monetary policy
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- Natural question: does 2. explain 1.?
- Excellent idea:
  - Use FOMC member j's favored interest rate from 1., say i^*_{jt}
  - Predict reasonable interest rate based on forecasts in 2., say $\hat{i}_{jt}$
  - Interpret $i^*_{jt} - \hat{i}_{jt}$ as the "political portion" of the desired interest rate
- Yields finding 3. $\rightarrow$ part of finding 1. is political

2. TAYLOR RULE ESTIMATION

- Two important ingredients of this approach
  (A) Need members' desired interest rate i^*_{jt} $\rightarrow$ apply an LLM to FOMC transcripts
  (B) Need Taylor rule $\rightarrow$ estimate "ground truth" parameters with Greenbook forecasts

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  - Show examples of text snippets and related LLM output
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  - Show examples of text snippets and related LLM output
  - Show summary stats of i^*_{jt} in j and t dimension
- A note of caution on (B): Taylor rule parameters could be member-specific
- High-level remark: I think the exercise is very nice, no matter what finding 3. is

3. MAGNITUDES

1. At the individual FOMC member level:
   - Partisan alignment $\uparrow$ [1 unit] $\Rightarrow$ FFR $\downarrow$ [5 - 11bp] relative to forecast-implied
2. At the aggregated committee level:
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- 1 unit $\approx$ Bush Sr $\rightarrow$ Clinton $\approx$ Obama $\rightarrow$ Trump
- To me, these effects are not huge, but larger than I would have expected
- High-level remark: this paper is fascinating independent of effect sizes

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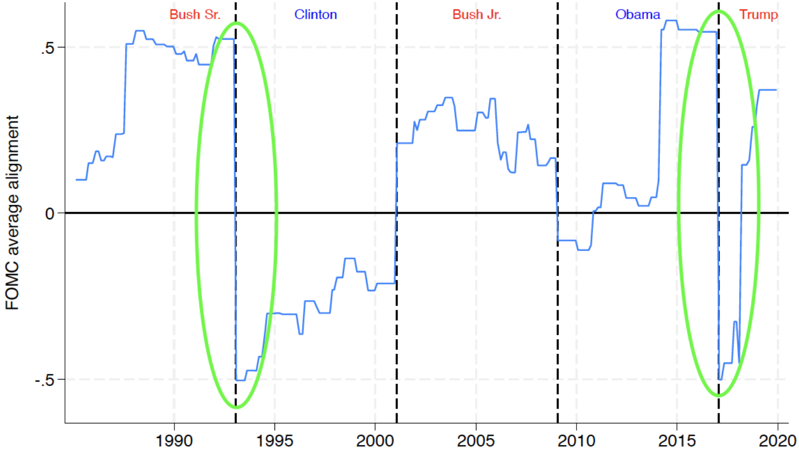

- After entering the White House, Clinton and Trump got 25bp easier policy

4. HOW WORRIED SHOULD THE FINDINGS MAKE US?

- On the one hand, I am concerned
  - Surprising how partisan the FOMC appears to be
  - Perhaps understandable that alignment affects members' economic outlook
  - Worrying that this influences policy decisions beyond their economic outlook
- On the other hand, the economic effects reassure me
  - IRFs look a lot like those to a standard monetary policy shock
  - No de-anchoring or inflation bias
  - Different from findings for direct external pressures (Drechsel, 2026)

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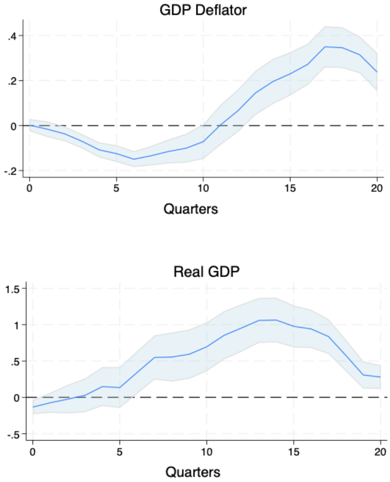
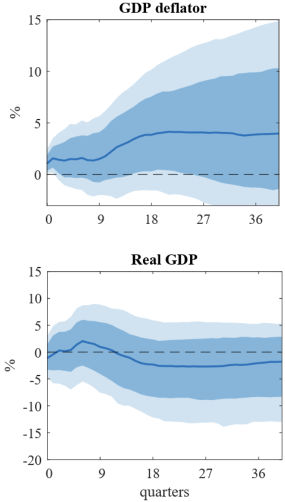
This paper:



Drechsel (2026):



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  2. Suggestive evidence that alignment affects policy decisions beyond economic views
  3. In terms of economic effects, alignment shifts akin to monetary policy shocks

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- The paper leaves me with three conclusions
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  2. Suggestive evidence that alignment affects policy decisions beyond economic views
  3. In terms of economic effects, alignment shifts akin to monetary policy shocks
- Some improvements still possible to make second conclusion more convincing
- The paper is excellent even if this point remains suggestive

BIBLIOGRAPHY

Drechsel, T. (2026): “Political pressure on the Fed,” *Review of Economic Studies*, rdag030.

DATA SOURCES

- https://www.pewresearch.org/politics/2018/04/26/10-political-engagement-knowledge-and-the-midterms/?utm_source=chatgpt.com