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Presidential Rhetoric and the Federal Reserve

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CHAPTER THREE

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> "I thought I was the president, but when it comes to these bureaucrats, I can't do a damn thing."
>
> —Harry S. Truman (Nathan, 1983)

The President and the Federal Reserve

Presidential administrations are highly concerned with what the Federal Reserve (Fed) does (Cohen and Hamman, 2003). This independent bureaucratic agency, created in 1913, is charged with being the central bank of the United States; it is supposed to maximize employment, moderate long-term interest rates, set monetary policy, and manage inflation by raising and/or lowering interest rates on monies loaned to banks, which substantially affects the overall economy (Dolan, Frendreis, and Tatalovich, 2008; Morris, 2000; Morris and Munger, 1998; Frumkin, 2004; Auerbach, 1985; Krause, 1994; Shull, 2005). Therefore, presidents have been trying to garner influence with the Fed since its inception (Worsham, 1997).

As many presidents do, Nixon often talked about the proper balance between inflation and unemployment and the Federal Reserve's role in bringing about what is necessary for a healthy economy, particularly the Federal Funds Rate (FFR), which when raised or lowered can stave off inflation or a recession. President Nixon went to great lengths to influence the decisions and monetary policy of the Fed during his chairmanship. In fact, Arthur F. Burns was nominated, in part, because it was thought that he would listen to

Nixon and follow monetary policy directions from the administration. President Nixon, at the swearing in of the Federal Reserve Chairman Burns, said "I do have the opportunity as president to convey my views to the chairman of the Federal Reserve." Moreover, the president indicated that he had "some very strong views on some of [the] economic matters . . ." and that he could "assure . . . that [he would] convey them privately and strongly to Dr. Burns." He continued by saying that he "hope[ed] that independently [Dr. Burns would] conclude that [President Nixon's] views are the ones that should be followed" (Woolley and Peters, 2014—"Richard Nixon, 1970").

President Nixon never tried to hide or mask his attempts to "influence" the independent agency in its decisions pertaining to the direction of monetary policy. Nixon is known to have said to Arthur Burns, "I know there's the myth of the autonomous Fed . . . and when you go up for confirmation some Senator may ask you about your friendship with the president. Appearances are going to be important" (Abrams, 2006). There are numerous recorded conversations that illustrate Nixon's attempts to influence the Chairman and the Agency. The following are quotes from Abrams (2006):

> October 23, 1969
> My relations with the Fed, will be different than they were with [previous Federal Reserve chairman] Bill Martin there. He was always six months too late doing anything. I'm counting on you, Arthur, to keep us out of a recession.
>
> October 10, 1971
> I don't want to go out of town [losing the presidential election] fast . . . this will be the last Conservative administration in Washington.
>
> December 24, 1971
> Do you feel, as far as Arthur [Federal Reserve chairman] 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.
>
> February 14, 1972
> War is going to be declared if he [Chairman Arthur Burns] doesn't come around some.
>
> February 14, 1972
> I don't much, I really don't care what you [Arthur Burns] do in April, but between now and April . . . that can hurt us . . . in November.

Abrams (2006) indicates, however, from recorded conversations between President Nixon and George Shultz (Director of OMB), that the White

House received a firm commitment from Chairman Burns to expand monetary policy.

The speculation that Nixon was able to exert influence over the Federal Reserve and get them to acquiesce to an expansionary monetary policy and agenda seems to have a semblance of legitimacy. The accusations abounded during Arthur F. Burns tenure as Federal Reserve Chairman, suggesting the Fed followed the directions and pressures from the president. According to William Safire, Nixon's speechwriter, the pressures extended to leaking negative newspaper stories about Burns's personal life so that he would toe the line (Abrams, 2006). Moreover, there were threats to change the number of members on the Fed's Federal Open Market Committee (FOMC). This would have given Nixon an opportunity to change the "majority," which would have given him more leverage to expand credit and the money supply (Abrams, 2006).

A few Nixon Administration officials stated that the chairman had the FFR changed, as a result of the pressure, to facilitate in the advancement of President Nixon's agenda and reelection. Chairman Burns is recorded as saying, in multiple instances, "I wanted you [President Nixon] to know that we lowered the discount rate . . . got it down to 4.5 percent" (Abrams, 2006). Again, he tells the President that the FOMC was put "on notice that through this action that [he] want[s] more aggressive steps taken by [the] committee on next Tuesday"—indicating that he is following President Nixon's directions (Abrams, 2006). Abrams (2006) says, "the economic data supports the view that the Federal Reserve had already become decidedly more expansionary as Burns had promised."

After the 1972 election and later when President Nixon had resigned, the economy progressively soured, inflation reached over 12 percent and a recession followed (Abrams, 2006; Bartlett, 2004). Many blamed Chairman Burns for the declining economy; he was an esteemed economist and had to be aware of the economic consequences of expanding the monetary policy. Abrams (2006) says,

> Without invoking political pressure, the surge of expansionary monetary policy leading up to the 1972 election seems hard to explain. After all, Arthur Burns knew better than to run a heavily expansive monetary policy after the recession had ended in November 1970 and in an already-inflationary environment.

Nevertheless, a researcher can never fully ascertain if Chairman Burns succumbed to the pressure from President Nixon, aside from him stating clearly that he did. Chairman Burns was highly intelligent and understood the

economy; he simply could have done what he thought was the right thing to do in terms of economic policy. Despite his intelligence and economic skills, his actions could have been incorrect. Moreover, the phone conversations could easily be explained by saying that Chairman Burns was telling the president what he wanted to hear while on the phone and then pursuing what he thought was the best course of action at the Fed. There are other conversations wherein President Nixon emphatically expresses his distrust of Burns and others wherein Burns expresses his ideals for economic policy to Nixon. As a matter of fact, however, the Federal Funds Rate did change during the time in question.

Arthur Burns joined the Federal Reserve on February 1, 1971, during a time when the Federal Funds Rate (FFR) was steadily decreasing, beginning the process of expanding the amount of money available and keeping inflation down. Expanding the amount of money was directly in line with what Nixon wanted, as he thought the Fed's decision to contract the economy precluded his presidential victory in 1960 (Abrams, 2006). Nixon said prior to the election in 1972,

> Arthur Burns, in terms of monetary policy and in terms of fiscal policy, has followed a course that I think is the most responsible and statesmanlike of any chairman of the Federal Reserve in my memory. In other words, you have seen an expansionary monetary policy, and that is one of the reasons we have had an expansionary economy in the first six months of this year (Woolley and Peters, 2014—"Richard Nixon, 1971").

In that same speech, President Nixon may have shown his hand in a very revealing manner when he said, "So we find that Burns agrees—that I agree with Burns, let's put it that way. I agree with Burns very strongly on his monetary policy, on his fiscal policy" (Woolley and Peters, 2014—"Richard Nixon, 1971").

History is riddled with instances, anecdotal however, wherein the decisions of the Federal Reserve have mirrored the wishes of the sitting president. Given the Federal Reserve's noted independence from political control, whether the president influenced the Fed is noteworthy, given our understanding and commitment to separated institutions sharing power. Nixon's comments and Chairman Burns' decisions warrant further and more comprehensive inquiry into whether or not Arthur Burns used his position as chairman of the Federal Reserve to get the FOMC to change the Federal Funds Rate and the direction of monetary policy, at the expense of the economic health of the United States, to aid in Nixon's reelection.

The following chapter offers a quantitative explanation regarding presidential influence with one of the most significant economic actors. How can the president assert influence over one incredibly important aspect of the economy if he cannot even get the economic actor to listen to him? The findings serve to highlight the glaring flaw in the prevailing argument that presidential rhetoric matters in the sense that it can persuade or influence—as the most important economic actors are not even paying attention to what the president is saying. The findings provide a contribution to the contentious discussion in the literature on presidential relations with the Federal Reserve regarding the president's capacity to influence monetary policy (Krause, 1994; Havrilesky, 1995; Beck, 1982; Morris, 2000; Nathan, 1983; Wood and Waterman, 1994; Weintraub, 1978; Maisel, 1973).

Nevertheless, I consider the literature regarding the limitations presidential appointments to the Federal Reserve Board have and address how presidential rhetoric factors into the Fed's decision-making regarding monetary policy. From ascertaining the overall ineffectiveness of presidential rhetoric and signals to the Fed, I posit a theory and empirical model that suggests the Federal Reserve is more responsive to Congress and current economic conditions when making monetary policy decisions.

Garnering Influence with the Federal Reserve

In order to gain influence over the economy, particularly monetary policy, presidents often try to put pressure on the Federal Reserve, using every mechanism their office and institution afford to them (Howell, 2003; Havrilesky, 1995). Presidents typically try to shape the Fed with appointments to the seven-member Board of Governors. Moreover, presidents often use cues and signals to the Fed to indicate what direction they want them to take monetary policy. Typically, the cues consist of changes in fiscal policy and calls for the Fed to address inflation or unemployment, areas that substantively impact the economy.

Historically, there is a desire for presidents to influence the Fed; however, there is considerable disagreement about the extent to which the influence is successful or effective (Krause, 1994; Havrilesky, 1995; Beck, 1982; Morris, 2000; Auerbach, 1985; Nathan, 1983; Wood and Waterman, 1994; Weintraub, 1978; Maisel, 1973). According to many scholars, presidents have struggled to garner influence with the Fed, partly because it is an independent agency (Chappell, Havrilesky, and McGregor, 1993; Havrilesky, 1995; Wood and Waterman, 1994; Morris, 2000; Cohen and Hamman, 2005; Munger and Roberts, 1990). For instance, the discretion by the Fed, where

their localities lie, and to whom they are accountable are all factors that keep scholars continually trying to model this relationship and ascertain insight into who is able to pressure the Fed and their monetary policy decision-making (Brehm and Gates, 1997)?

Appointments

Presidents attempt to use appointments to shape the monetary policy decisions at the Federal Reserve (Krause, 1994; Beck, 1982; Dolan, Frendreis, and Tatalovich, 2008). There is a vast literature claiming presidents are effective at doing this (Golden, 2000; Chappell, Havrilesky, and McGregor, 1993; Havrilesky and Gildea, 1992; Havrilesky, 1995; Nathan, 1983; Waterman, 1989; Wood and Waterman, 1994). There are still substantive gaps, however, in the arguments, which have not done a satisfactory job of explaining the presidential influence with the Fed empirically and comprehensively (Munger and Roberts, 1990). There seems to be an assumption that presidents are able to influence monetary policy with their appointments (Auerbach, 1985; Hibbs, 1987; Weintraub, 1978; Maisel, 1973).

The decisions that the Fed makes can sabotage or undermine the policy goals of the presidents (Brehm and Gates, 1997). In addition, the structure of the relationship allows the Fed to achieve agency-oriented goals, which are purely self-interested (Downs, 1967). This means that the requests that come from the president are not precisely what will be pursued and implemented at the Fed. Moreover, even though it features a seven-member board of governors, appointed by the president, there is no guarantee that the appointees will remain loyal to the policies of the president (Edwards and Wayne, 1985). Many appointees in bureaucratic agencies "go native" once they are immersed in the agency culture and begin advocating for the plans of the agency rather than those of the president who appointed them (DiClerico, 2000).

While, such a statement is somewhat true, one has to consider the subtleties of the appointment process to obtain a more accurate picture of the degree to which appointments empower presidents to shape monetary policy (Keech and Morris, 1997). Upon further inquiry, the realities of presidential influence at the Fed are significantly less potent than commonly assumed (Keech and Morris, 1997).

Chappell, Havrilesky, and McGregor (1993), as discussed in Keech and Morris (1997), argue that Democratic presidents, more than Republican presidents, typically appoint those members who prefer lower interest rates. This fact, they claim, enables presidents to "pack" the Fed with like-minded persons who will then change Fed monetary policy. The reality, however, is

that presidents have not enjoyed the opportunity to appoint majorities to the Fed board of governors very often (Keech and Morris, 1997). As illustrated by table 3.1, presidents spend most of their time in office, in fact, before they are able to make enough appointments to have a majority at the Fed.

To further complicate the "packing" argument, presidents must contend with the "Earl Warren Effect" when making appointments to the Federal Reserve—namely appointees completely follow a different policy path than the one desired by the appointing president (Morris, 2000, p. 73). Havrilesky and

Table 3.1. Presidential Appointments to the Board of Governors.

	Membership the Federal Reserve System (1953–2012)	
D. D. Eisenhower	Wm. McC. Martin, Jr. 1956 –1970	A.L. Mills, Jr. 1958–1965
1953–1961	C. Canby Balderston 1954–1966	Paul E. Miller 1954–1954
	Chas. N. Shepardson 1955–1967	G.H. King, Jr. 1959–1963
J. F. Kennedy	George W. Mitchell 1961–1976	
1961–1963		
L. B. Johnson	J. Dewey Daane 1963–1974	Sherman J. Maisel 1965–1972
1963–1969	Andrew F. Brimmer 1966–1974	William W. Sherrill 1967–1971
R. M. Nixon	Arthur Burns 1970–1978	John E. Sheehan 1972–1975
1969–1974	Jeffrey M. Bucher 1972–1976	Robert C. Holland 1973–1976
	Henry C. Wallich 1974–1986	
G. R. Ford	Philip E. Coldwell 1974–1980	Philip C. Jackson, Jr. 1975–1978
1974–1977	J. Charles Partee 1976–1986	Stephen S. Gardner 1976–1978
	David M. Lilly 1976–1978	
J. E. Carter	G. William Miller 1978–1979	Nancy H. Teeters 1978–1984
1977–1981	Emmett J. Rice 1979–1986	Frederick H. Schultz 1979–1982
	Paul A Volcker 1979–1987	Lyle E. Gramley 1980–1985
R. W. Reagan	Preston Martin 1982–1986	Martha R. Seger 1984–1991
1981–1989	Wayne D. Angell 1986–1994	Manuel H. Johnson 1986–1990
	H. Robert Heller 1986–1989	Edward W. Kelley, Jr. 1987–2001
	Alan Greenspan 1987–2006	John P. LaWare 1988–1995
G. H. W. Bush	David W. Mullins, Jr. 1990–1994	Lawrence B. Lindsey 1991–1997
1989–1993	Susan M. Phillips 1991–1998	
W. J. Clinton	Alan Greenspan 1987–2006	Alan S. Blinder 1994–1996
1993–2001	Janet L. Yellen 1994–1997	Laurence H. Meyer 1996–2002
	Alice M. Rivlin 1996–1999	Roger W. Ferguson, Jr. 1997–2006
	Edward M. Gramlich 1997–2005	
G. W. Bush	Roger W. Ferguson, Jr. 1997–2006	Susan S. Bies 2001–2007
2001–2009	Mark W. Olson 2001–2006	Ben S. Bernanke 2002–2006
	Donald L. Kohn 2002–2010	Kevin M. Warsh 2006–2011
	Randall S. Kroszner 2006–2009	Frederic S. Mishkin 2006–2008
	Elizabeth A. Duke 2008–2013	
B. H. Obama	Daniel K. Tarullo 2009–	Sarah Bloom Raskin 2010–
2009–	Janet L. Yellen 1994–1997	Jerome H. Powell 2012–
[AU Query 5]	Jeremy C. Stein 2012–	

Adapted from Federal Reserve Official Website, 2014.

Gildea (1992) found that from 1951–1987 the presidential appointments to the Fed's Federal Open Market Committee (FOMC) did not always vote for the policy preferences of those presidents who appointed them.

Moreover, appointments to the Fed are similar to appointments to the Supreme Court; there has to be agreement with the political, business, and economic communities in order to secure a position on the Federal Reserve Board (Beck, 1982). Divided government and election proximity keep partisan appointees from confirmation by the Senate (Waller, 1992). In fact, many of the appointments are persons who have risen through the ranks at the Fed; they are not politically partisan appointments from campaign staff, but rather "experts" who have already been "institutionalized" at the Fed.

Just as important, presidential appointments do not provide any significant level of influence over the Fed's FOMC's decision-making when compared to the influence that takes place from within the Fed, particularly with regard to consensus within the FOMC and the Fed chair (Krause, 1994). Presidential appointments of the Chair of the Federal Reserve are not correlated with significant changes in Fed monetary policy (Chang, 2001; Beck, 1987; Rose, 1991; Maisel, 1973; Nordhaus, 1975; Tufte, 1978; Krause, 1994). Moreover, there is also no substantive evidence that appointments to the Fed's FOMC had any influence on policy either (Chang, 2001).

Where there is change in the predicted median influence, the data do not tell us if the influence is coming from the president or the Senate, who may be, and often are, at odds with one another (Chang, 2001). In the instances where there were substantial changes to the Fed's monetary policy, it is more likely that the changes were a result of external pressures from Congress or the changing/shifting world economy rather than a result of presidential appointments, policy preferences, or rhetorical cues from the president (Beck, 1982; Saeki and Shull, 2003).

Based upon the extant empirical literature, there is no theoretical justification to include appointments into the following statistical model. The extant research does a thorough job refuting the notion that presidents can influence monetary policy with appointments to the Federal Reserve. Nevertheless, I included this section to highlight the fact that even a concrete power that the president has with the Federal Reserve does not grant him influence over the agency or their decision-making. If the appointment power does not afford presidents influence, the likelihood that rhetoric does is even less probable.

Granted, one could argue that the Fed might pay attention to what the president says and act accordingly with regard to the FFR when there is a vacancy in the hopes that the president will appoint someone of which the

Fed approves. However, I discuss this and the literature later. The president is going to appoint someone that the Senate will confirm. Therefore, it is not likely that the Fed would go against what Congress wants in an attempt to get some shortsighted gain, because, in fact, the president is not really going to go against what the Senate wants due to the fact that he knows the person would not likely obtain confirmation anyway.

Rhetorical Cues and Signals

The president of the Federal Reserve Bank of Chicago, along with many of his colleagues, believes that the stimulation needed to make the economy better occurs by changing the way elite economic policymakers talk about the best direction for the economy (Campbell, Evans, Fisher, and Justiniano, 2012). Given their position and the size of the president's constituencies, it seems to assert that presidents would be able to influence this particular economic actor directly with cues and signals.

More importantly, there are instances where Fed chairmen have stated that presidential requests and cues have changed the behavior of the Fed, particularly during the Johnson Administration (see table 3.2). There are also a few claims in the literature stating that the Fed has manipulated the Federal Funds Rate (FFR) during elections to either help or hurt the incumbent president, as discussed earlier (Beck, 1987; Maisel, 1973; Nordhaus, 1975; Tufte, 1978). These claims were prevalent during the election of 1972.

Table 3.2. Presidential Administrations and the Chairman of the Fed.

	Federal Reserve System (1953–2012)	
William McChesney Martin, Jr.	Dwight D. Eisenhower	John F. Kennedy
1951–1970	Lyndon B. Johnson	Richard M. Nixon
Arthur F. Burns	Gerald R. Ford	James "Jimmy" E. Carter
1970–1978		
G. William Miller	James "Jimmy" E. Carter	
1978–1979		
Paul A. Volcker	Ronald W. Reagan	
1979–1987		
Alan Greenspan	George H. W. Bush	William J. Clinton
1987–2006	George W. Bush	
Ben Bernanke	George W. Bush	Barack H. Obama
2006–2014		
Janet Yellen	Barack H. Obama	
2014–		

Adapted from Federal Reserve Official Website, 2014.

Many of those supposedly involved either denied the accusations or recanted later what had been said (Beck, 1982).

When controlling for the president and the Fed Chairman, however, there is a statistical effect for changes in monetary policy (Havrilesky, 1995). The response of monetary policy to signals does not continue for all presidents and chairmen; it only exists for certain periods. For instance, the FFR changed when Arthur Burns was the chairman under presidents Nixon and Ford, but not when it was William Martin. The same chairman with the Carter Administration shows no influence. When President Carter switched to Chairman Volcker, the monetary policy did react to the signals. This continued through the first Reagan Administration, but not the second. When Chairman Greenspan took over, monetary policy responded to the signals from President Reagan. This trend did not continue with President George H. W. Bush and Chairman Greenspan. Interestingly, however, monetary policy did respond to President Clinton's signals when Chairman Greenspan was there. Monetary policy, briefly followed the direction of President George W. Bush with Chairman Greenspan. Finally, there is no question that monetary policy followed the direction President Obama desired while Chairman Bernanke is at the helm, and seems to be currently following Chairwoman Yellen.

These anecdotal examples, however, do not withstand statistical scrutiny, such evidence has not been proven to be a comprehensive and systematic statistical reality, but rather appears to be "episodic" with most such claims unsubstantiated by empirical findings, however (Havrilesky, 1995, p. 37; Beck, 1982).

However, there are a number of reasons why the president will use signals as a mechanism of successful economic leadership to the Federal Reserve (Wood, 2007; Eshbaugh-Soha, 2006). Informing the Fed of his policy preferences is the best, most effective way for the president to overcome the coalition building challenges as well as the vitriolic political process (DiClerico, 2000). The president wants to signal to the "policy elites" for what he is willing to fight, such as a contractionary or expansionary monetary policy and provide reassurances of how much commitment he has to his economic/monetary policy (Eshbaugh-Soha, 2006; p. 7). This opportunity enables the president to signal the economic groups and policymakers about how their actions will be recompensed (Eshbaugh-Soha, 2005).

The prevailing theories and research states that the president's ability to employ rhetoric to shape the behavior of economic actors should be substantiated by the fact that the president is the foremost person with economic information, which makes him the most visible figure in economic discus-

sions (Wood, 2007; Eshbaugh-Soha, 2005). The fact that the president has the largest staff of economic actors (National Economic Council, Council of Economic Advisors, Office of Management and Budget, Department of Treasury, Department of Commerce, Department of Labor, Bureau of Economic Analysis) providing him with information and advice makes him appear to be the preeminent economic policymaker. The expectation is that the president, because of his access to comprehensive information, leads the economy, particularly through downturns and prosperity, with rhetoric, signals, and cues (Wood, 2004). Should this unparalleled role give him a direct influence over the economy? In other words, should the Fed be responsive to his rhetoric, looking to him for direction, information, and leadership?

Presidents use rhetoric to assert their power and position. Thus, does it make it an influential mechanism of presidential power? Sending positive and negative signals to the Fed is the president's way of conveying his policy preferences (Eshbaugh-Soha and Peake, 2005; Eshbaugh-Soha, 2006). The president hopes the economic speeches function as his mechanism of power, an instrument of the modern presidency that conveys what he wants. He hopes the signals put pressure on the Fed to act (Eshbaugh-Soha, 2006). Successfully influencing the Fed, however, is profoundly complicated because they are independent so presidents have to rely on their ability to persuade them to make decisions about complex and controversial policies: employment, prices, long-term interest rates, raising interest rates or lowering interest rates (Dolan, Frendreis, and Tatalovich, 2008; Krause, 1994; Havrilesky, 1995; Beck, 1982; Morris, 2000; Wood and Waterman, 1994; Weintraub, 1978; Maisel, 1973).

The Fed's Response to Cues and Signals

The signals are, typically, verbal words or cues that presidents speak to the policy elites. These signals can offer support for specific programs or they can be expressions of their opposition to what the policy elites are actually doing. Moreover, the signals can be specific such as requests for changes or actions to an existing policy. As long as the president is informing the elites of his preferences, what he is doing is a signal (Eshbaugh-Soha, 2006).

The cues and signals presidents use can be found in the literature on what the Federal Reserve does economically, the attention it pays to unemployment, inflation, and the interest rates (Eshbaugh-Soha, 2006; Dolan, Frendreis, and Tatalovich, 2008). The most pertinent economic indicators, or policy tools as the Fed calls them, help to make up the U.S. monetary policy, which can make or break a president's legacy, reelection, or image to the "Washingtonians" (Havrilesky, 1995; Neustadt, 1991). Shaping monetary

policy is crucial for presidential success (Morris, 2000). The cues and signals to the Fed ensure that the president is, in fact, trying to influence the behavior of this particular economic actor.

Should the Fed be receptive of the president's signals because of cue taking; their rhetoric is a form of leadership signaling (Whitford and Yates, 2009)? Do the signals and cues to the Fed engender "cognitive shortcuts" in relation to information that is pertinent to the agency (Eshbaugh-Soha, 2006, p. 38)? Elite policymakers have limited information about the political ramifications of most policy decisions. By listening to the president, are the policy elites able to make effective decisions about policy because the president fills in that information that is lacking, due to his vast network?

The prevailing theories suggests that presidential signals, consistent speeches about the state of the economy, and the president's policy preferences for the Fed inform the agency of the president's positions and economic goals (Eshbaugh-Soha, 2005). Using signals that address issues of concern to the Fed, the president should be able to influence their decision-making. The tone of the speeches filters through to the economic actors and should be reflected in their economic behavior, which creates a consistent message that can "establish a climate for economic perceptions" (Wood, 2007, p. 14). This climate is something that the president can then manipulate or shape, according to Wood (2007).

In order to measure whether the Fed is responsive to the signals of the president, Havrilesky (1995) created a "SAFER index," coding every mention in the *Wall Street Journal* that addressed monetary policy (expansionary or contractionary) and some action mentioned by other members of the president's administration such as the Secretary of Treasury and the Council of Economic Advisors (p. 118). He found no statistically significant impact in the period 1964–1994, when controlling for the White House staff and the CEA. The study only looked at one, fairly conservative, economic newspaper, rather than a comprehensive timespan of presidential comments (Woods and Arthur, 2014; Gentzkow and Shapiro, 2006). Moreover, it is fair to assume that the *Wall Street Journal* is going to mention only those comments they find pertinent to the overall goals of their newspaper (Eshbaugh-Soha and Peake, 2008).

Moreover, the Clinton Administration's signals to the bond market did not make a significant difference; there was no effect on the thirty-year Treasury Bills despite the rhetoric (Eshbaugh-Soha, 2005). President George H. W. Bush's signals to the market about the money supply in his State of the Union Addresses were not effective (Eshbaugh-Soha, 2005). In fact, his signals returned the opposite outcomes. He does, however, find that there is an

effect when he controls for the president and the FED chairman (Havrilesky, 1995). The response of monetary policy to signals does not continue for all presidents and chairmen; it only exists for certain periods.

Such data and results suggest that the president has a limited influence over economic and monetary policy (Eshbaugh-Soha, 2005). Moreover, studies show that in the pre-golden (1953–1962), golden (1963–1985), and the post-golden (1986–2002) age television eras, presidential rhetoric had no significant effect on how the public viewed economic policy (Young and Perkins, 2005). The research suggests that the presidents, through their rhetorical actions, are limited in their ability to influence economic effects or economic indicators directly.

Scholarship really has no comprehensive evidence detailing the extent to which presidents send signals to the Fed about economic policy, despite a complex and growing literature on presidential signals to various actors, and subsequently, no comprehensive evidence suggesting the extent to which the Fed responds to the presidential rhetoric (Whitford and Yates, 2009; Wood, 2007). Therefore, assessing the Fed's responsiveness to the signals in a comprehensive analysis provides an important look into the effectiveness of presidential rhetoric to shape economic and monetary policy at the Fed. If positivity and/or negativity can predict changes in the Federal Funds Rate, then one can confidently state that the presidents have the ability to shape the economic behavior of the Fed. The following model and hypotheses offer insight into the limitations the aforementioned theory has regarding the president's ability to influence the Fed with signals and rhetoric.

Hypotheses for Predicting Changes in the Federal Funds Rate

The data gathered for this particular analysis show that presidents try to signal the Fed, however, based upon the political realities of their relationship with the Fed and the limitations such a relationship imposes on the president, they struggle to do so effectively. The statistical model will offer results that suggest the aggregated, positive economic rhetoric from the president is unable to shape the behavior of the Fed, changes in the Federal Funds Rate (FFR) (Dolan, Frendreis, and Tatalovich, 2008). The expectation is that presidential rhetoric is not able to predict the probability that the Fed will change the FFR.

$H1_O$: The president's positive economic rhetoric will predict the probability that the Fed will *change* the FFR.

$H1_A$: The Fed will respond to the president's positive economic rhetoric either by leaving the FFR where it is or the Fed will lower the FFR.

$H2_O$: The president's negative economic rhetoric will predict the probability that the Fed will *lower* the FFR.

$H2_A$: The Fed will respond to the president's negative economic rhetoric either by leaving the FFR where it is or the Fed will raise the FFR.

Congressional Pressures on the Federal Reserve

Some have argued that the Fed is more likely to make decisions about monetary policy based upon external pressures from Congress rather than cues or signals from the president (Saeki and Shull, 2003). Congress often requires that members of the board of governors provide testimony before hearings and particular committees about the economy and future economic conditions (Saeki and Shull, 2003). More specifically, the preferences of the Senate play a significant role in the Fed's decision to adopt an expansionary or a restrictive monetary policy (Morris, 2000). The senators are going to have specific preferences based upon the preferences of their constituents and their party-ideology (Saeki and Shull, 2003).

The Fed is less likely to choose a direction for monetary policy that would encounter opposition in Congress, which has asserted its authority and made transparency a major requirement due to the secrecy with which the Fed conducted its monetary policy decision-making in the past (Havrilesky, 1995; Munger and Roberts, 1990). The Fed is now required to present, to Congress, its thoughts regarding the Federal Funds Rate and the direction it believes the economy is headed. The Fed acquiesced to these demands rather than fighting; it feared how aggressively Congress would assert its authority and how much autonomy they could potentially lose (Havrilesky, 1995).

The Fed responds to the policy preferences of Congress; they have the most influence in the Fed's role with monetary policy (Munger and Roberts, 1990; Havrilesky, 1995). More specifically, the Fed is going to pay significant attention to the Chairperson of the Senate Banking Committee when considering whether they will expand or contract monetary policy, given the power of this chairperson: autonomy, agenda-setting, and ability to call hearings, as well as the chairperson's ability to withstand pressure to compromise on their ideological predilections, unlike the president who has a national constituency (Saeki and Shull, 2003). The Fed is more likely to make its decision about the economy based upon the preferences of the Senate Banking Committee Chairperson rather than the president (Saeki and Shull, 2003).

The prevailing thought, entrenched in the literature, is that Republicans advocate for contractionary monetary policy (higher interest rates) and that Democrats seek after expansionary monetary policy (lower interest rates), as these approaches best favor their respective constituencies (Keech and Morris, 1997; Hibbs, 1987; Havrilesky, 1995). In other words, the ideology of the political parties plays a major role in the monetary policy the Fed pursues (Hibbs, 1987). Particularly, the Senators are going to have specific preferences based upon their constituents and the necessities of their reelection attempt (Saeki and Shull, 2003). This is overwhelmingly seen in the fact that Democratic presidents typically appoint those members who prefer lower interest rates more than Republican appointees (Chappell, Havrilesky, and McGregor, 1993). This must be factored into the discussion given that the Senate must confirm each of the appointees to the Federal Reserve's board of governors.

Congressional intervention into monetary policy mitigates the influence the president has over the Fed (Havrilesky, 1995). Congress exercises a significant influence over the Federal Funds Rate when it communicates its policy preferences in the biannual Congressional Oversight Hearings on monetary policy (Havrilesky, 1995). Therefore, this analysis seeks to determine if the Fed makes changes to the FFR, as a result of the political party of the Chairperson of the Senate Banking Committee or the number of hearings the Congress has regarding the economy, particularly since the literature indicates that the Congress asserts institutional pressures on the Fed regarding policy.

$H3_O$: The political party of the chairperson of the Senate Banking Committee will predict the type of economic policy the Fed will pursue in its decisions to *change* the FFR.

$H3_A$: The Fed will respond to the political party of the chairperson of the Senate Banking Committee by leaving the FFR where it is or pursuing a contractionary or expansionary monetary policy with disregard to party ideology.

$H4_O$: The number of congressional hearings regarding the economy will predict the probability that the Fed will alter its economic behavior and *change* the FFR.

$H4_A$: The Fed will respond to the number of congressional hearings regarding the economy either by leaving the FFR where it is or pursuing a contractionary or expansionary monetary policy with disregard to congressional attention to the economy.

The Federal Reserve's Attention to Economic Conditions

Presidents have not addressed the economy in a major way in five of the last eleven recessions. In fact, presidents speak more about non-economic-related issues during a recession than economic issues (Hoffman and Howard, 2010). They tend to offer fewer speeches during times of recession, inflation, and low employment (Ragsdale, 1987). There is a reason for this: constructing too dramatic a picture of the economy can have seriously negative effects for the president. Moreover, presenting the economy as better than it actually is or ignoring the realities makes the president seem out of touch or incompetent, both of which can affect his interaction with important political actors or the electorate (Hoffman and Howard, 2010). They rarely, if ever, make major economic speeches to inform the public how well the economy is doing.

The state of the economy accounts for public perceptions of the effectiveness of political actors (Wood, 2007). According to Dolan, Frendreis, and Tatalovich (2008), the public expects the government to keep the economy feasible. Despite particular events of national importance, the economy, specifically, unemployment and inflation, top Gallup's "Most Important Problem" every year since 1936. The economy is important to the public, and they have substantively linked their perceptions of its condition to their own personal political behavior. Downturns in the economy affect the agenda, reelections, and public perceptions of the president. Moreover, the president's party typically loses congressional seats when the economy is not satisfactory (Dolan, Frendreis, and Tatalovich, 2008).

As stated in the Federal Reserve Act of 1913, the Fed is supposed to maximize employment, stable prices, and moderate long-term interest rates (Dolan, Frendreis, and Tatalovich, 2008). This legislative mandate allows the Fed to substantively affect inflation. Economic conditions must be considered a pertinent motivator for the Fed's decisions to change the Federal Funds Rate (Saeki and Shull, 2003). The Fed has a legislative responsibility to pursue low unemployment and low inflation, which makes it more likely to consider these rates when deciding whether to raise or lower the Federal Funds Rate (Beck, 1982). These indicators can better explain the monetary policy changes rather than the president's cues, especially when you consider the Fed's institutional pride and legacy (Beck, 1982).

$H5_O$: The Fed will respond to the changes in GDP (threats of recession) by modifying the FFR to combat inflation and unemployment.

$H5_A$: The Fed will use the FFR to pursue a contractionary or expansionary monetary policy with disregard to the changes GDP.

$H6_O$: The Fed will respond to the changes in the inflation rate by modifying the FFR to combat inflation and unemployment.

$H6_A$: The Fed will use the FFR to pursue a contractionary or expansionary monetary policy with disregard to the changes in the inflation rate.

$H7_O$: The Fed will respond to the changes in the unemployment rate by modifying the FFR to combat inflation and unemployment.

$H7_A$: The Fed will use the FFR to pursue a contractionary or expansionary monetary policy with disregard to the changes in the unemployment rate.

Empirical Model

As per the hypotheses above, three models (M1 = the tone of presidential rhetoric, M2 = congressional attention to the economy, and M3 = economic indicators) were constructed to ascertain the conditions that can create changes in the FFR.[1] Using content analysis, the rhetorical cues and signals the presidents sent to the Fed were coded according to a detailed protocol and codebook, as discussed in chapter 1. The *Policy Agendas Project* data on congressional hearings were manipulated to match this model. And, the economic data were gathered from the Bureau of Labor Statistics (BLS). Each model allowed me to estimate the effects of these independent variables on the FFR. The time series analysis was for every president from Dwight D. Eisenhower (1954) through Barack H. Obama (2010), as illustrated by figure 3.1. The unit of analysis was *monthly* for each model. For the regression analysis involving presidential rhetoric, I estimated two lags; each is a month in duration. I chose to use a monthly lag because the dependent variable is estimated monthly. Moreover, I chose to use only two of these lags because the literature justifies such an action. There are time limits on the effectiveness and potency of presidential rhetoric (Whitford and Yates, 2009; Edwards, 2009; Edwards, 2003). The policy window of any salient issue the president is discussing has limits with regard to the attention span of political actors and the public (Kingdon, 1995; Eshbaugh-Soha, 2006).

Statistical Method

As with many time series analyses, the Durbin-Watson statistical test in the *Ordinary Least Squares (OLS) Regression Analysis* presented first-order autocorrelation (AR1) in each model (d = 0.15 for M1, d = 0.22 for M2, and d = 0.11 for M3) (Comiskey and Marsh, 2012; Yates and Whitford, 2005). Based upon the diagnostics, using a Prais-Winston (1954) regression analysis

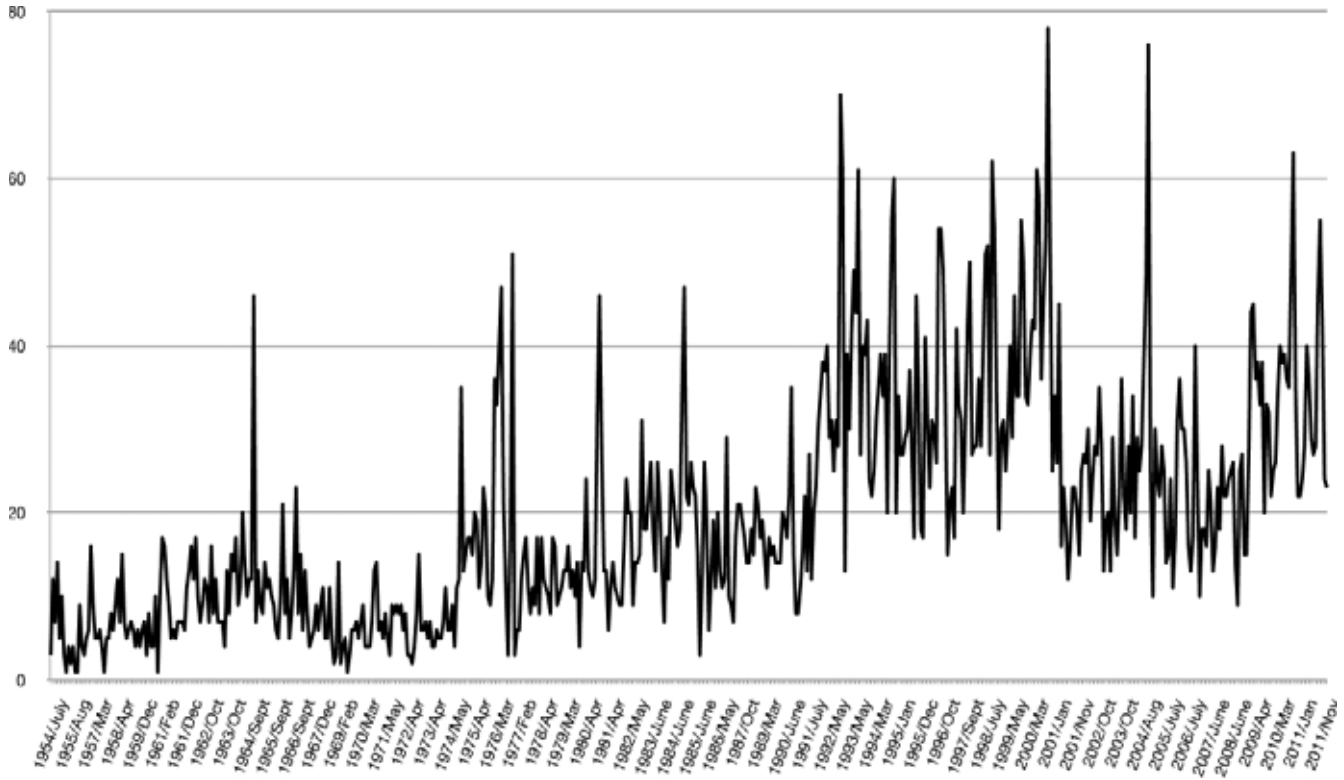

Figure 3.1. Monthly Totals of Presidential Speeches 1954–January 2012.
Adapted from *American Presidency Project,* 2014.

with the Cochrane–Orcutt estimation allowed me to more appropriately estimate the changes in the Federal Funds Rate (Gronke and Miller, 2012; Gerring, Thacker, and Moreno, 2005; Whitford and Ochs, 2005; Yates and Whitford, 2005; Lowry and Shipan, 2002). Moreover, the variance inflation factor (VIF) results indicated that there was no problem with multicollinearity in either of the models and I estimated the regressions with semi-robust standard errors after re-specifying the model to mitigate any residual heteroskedasticity. The model, overall, is in line with the hypotheses[2]; the predictor variables in this analysis do not significantly affect whether the Federal Reserve changes its FFR as a result of the positivity and/or negativity in the president's economic rhetoric. However, as theorized, the results suggest that the FFR does respond to congressional behavior and economic indicators.

Independent Variables

Presidential Economic Rhetoric (M1)

Identifying the presidential rhetoric aimed at the Federal Reserve was, again, accomplished by using the *Public Papers of the President* in the *American Presidency Project*, from July 1954 through January 19, 2012. This provided the researcher with 1,530 presidential speeches. The population is measured over sixty-five years (1946–2012). The presidential cues and signals to the Federal Reserve were coded as the ratio of positive speeches to negative and neutral speeches (positive ratio ((positive speeches)/(positive speeches + negative speeches + neutral speeches)) and the ratio of negative speeches to positive and neutral speeches (negative ratio ((negative speeches)/(negative speeches + positive speeches + neutral speeches)). I created two, one-month lags for each of these variables.

Coding the speeches as "positive" must be differentiated from the notion of "optimism," which is perpetually present in presidential economic rhetoric; they are the economy's unremitting cheerleader. As illustrated by table 3.3, many of the positive mentions are presidential claims of moving the economy towards positive economic growth, such as creating jobs, mitigating the effects of inflation, lessening the burden to tax payers, or economic expansion. As shown by figures 3.4 and 3.5 later in the analysis, presidents are generally more positive about the economy and do not often discuss the "negative" economy.

For the first model (M1), I included more independent variables to help control for the effects of each of the other independent variables that influence the dependent variable (FFR). I included the actual number of total speeches given per month (1 to 78) in order to account for the amount of

Table 3.3. Example Sentences Measuring the Tone of Presidential Rhetoric.

	Speeches from the American Presidency Project
D. D. Eisenhower 1/18/1960	This budget attests to the strength of America's economy. At the same time, the budget is a test of our resolve, as a nation, to allocate our resources prudently, to maintain the Nation's security, and to extend economic growth into the future without inflation.
J. F. Kennedy 1/24/1963	The chief problem confronting our economy in 1963 is its unrealized potential—slow growth, under-investment . . . and persistent unemployment.
L. B. Johnson 1/26/1967	Interest rates in 1966 were as high as at any time in forty years. They were pushed there by an insatiable demand for credit, straining against a deliberately restricted supply. Monetary policy in 1966—like tax policy—was properly aimed at slowing down an economy expanding too fast.
R. M. Nixon 8/15/1971	The tax reductions I am recommending, together with this broad upturn of the economy which has taken place in the first half of this year, will move us strongly forward toward a goal this Nation has not reached since 1956, fifteen years ago: prosperity with full employment in peacetime.
G. R. Ford 12/3/1974	Admittedly, the American economy is in a recession at the present time. Inflation pressures are many. Fear of unemployment is increasing among our people.
J. E. Carter 1/21/1980	Inflation continues to be our most serious economic problem. Restraining inflation remains my highest domestic priority. Inflation at the current, unacceptably high levels is the direct result of economic problems that have been building, virtually without letup, for over a decade. There are no easy answers, or quick solutions to inflation. It cannot be eliminated overnight; its roots in our economy are too deep, its causes are too pervasive and complex.
R. W. Reagan 1/11/1989	Our plans for the economy would cause inflation to soar and bring about economic collapse.
G. H. W. Bush 2/12/1991	These shocks hit an economy that was already growing slowly for several reasons, including worldwide increases in interest rates, tightened credit conditions, and the lingering effects of a successful attempt begun in 1988 by the Federal Reserve to prevent an acceleration of inflation . . . I know that in some regions of our country, people are in genuine economic distress.
W. J. Clinton 6/6/1997	Today we received one more piece of solid evidence that this invest-and-grow strategy is working. We learned that our economy added 138,000 new jobs and that unemployment dropped to 4.8 percent, the lowest in twenty-four years.
G. W. Bush 5/22/2004	With the right policies, we will maintain the strong forward momentum of the American economy, which is creating thousands of new jobs for American workers.
B. H. Obama 2/24/2011	The economy is now growing. In many sectors we're seeing recovery. But the biggest challenge that we're seeing right now is the fact that unemployment is still way too high all across the country.

Adapted from *American Presidency Project*, 2014.

attention the president is paying to the economy. To better account for the attention, I broke the number of speeches down by tone and included the number of negative speeches given per month (0 to 6) and the number of positive speeches given per month (0 to 9). Using the number of monthly presidential calls for legislation that deal with the economy (0 to 6) will further measure the presidential attempts to shape the economy. In addition to presidential attempts at shaping the economy, the presidents' party affiliations (Democrat (1 = yes or 0 = no); Republican (1 = yes or 0 = no)) and their average approval ratings (expressed as a monthly percentage = 0 to 100 percent) complement the model and ensure that it is specified correctly.

Congressional Attention (M2)

The data at the *Policy Agendas Project* was used to assess congressional behavior in the second model (M2). These data provide the number of total congressional hearings on the economy and the number of Senate Banking Committee hearings from the 79th Congress to the 110th Congress. From this data, I was able to construct six independent variables that are pertinent to the analysis. As evidenced by figure 3.2, I aggregated, monthly, the total days of hearings on the economy to measure congressional attention to economic issues that are important to the Federal Reserve (0 to 57). Moreover, I was able to ascertain the number of hearings the Senate Banking Committee had regarding economic issues relating to the Federal Reserve's responsibilities (0 to 15). I excluded those hearings on the economy that had to do with appropriations and reauthorizations; including such elements will confuse the data and the results (Edwards and Wood, 1999).

In addition to measuring congressional attention to the economy, considering the importance of party is necessary to measure the differences of influence within the committees, particularly because majority parties have more resources at their disposal to arrange committees and the shape the agenda, as illustrated by figure 3.2 (Aldrich and Rohde, 2000). Moreover, what matters are the preferences of individual members of Congress, particularly the median member; bills cannot garner institutional support until they pass the majority in the House and the filibuster threat in the Senate (Brady and Volden, 2006). Individuals, in a particular context, are able to derail the direction of monetary policy; it is not the parties (Krehbiel, 1998). To account for this, I created a dummy variable that measures the party of the chairman of the Senate Banking Committee (Democrat (1 = yes or 0 = no); Republican (1 = yes or 0 = no)). Similarly, I created another dummy variable that measured the party control of the Congress by chamber (Chamber Control (House - Democrat (1 = yes or 0 = no); Republican (1 = yes or 0 =

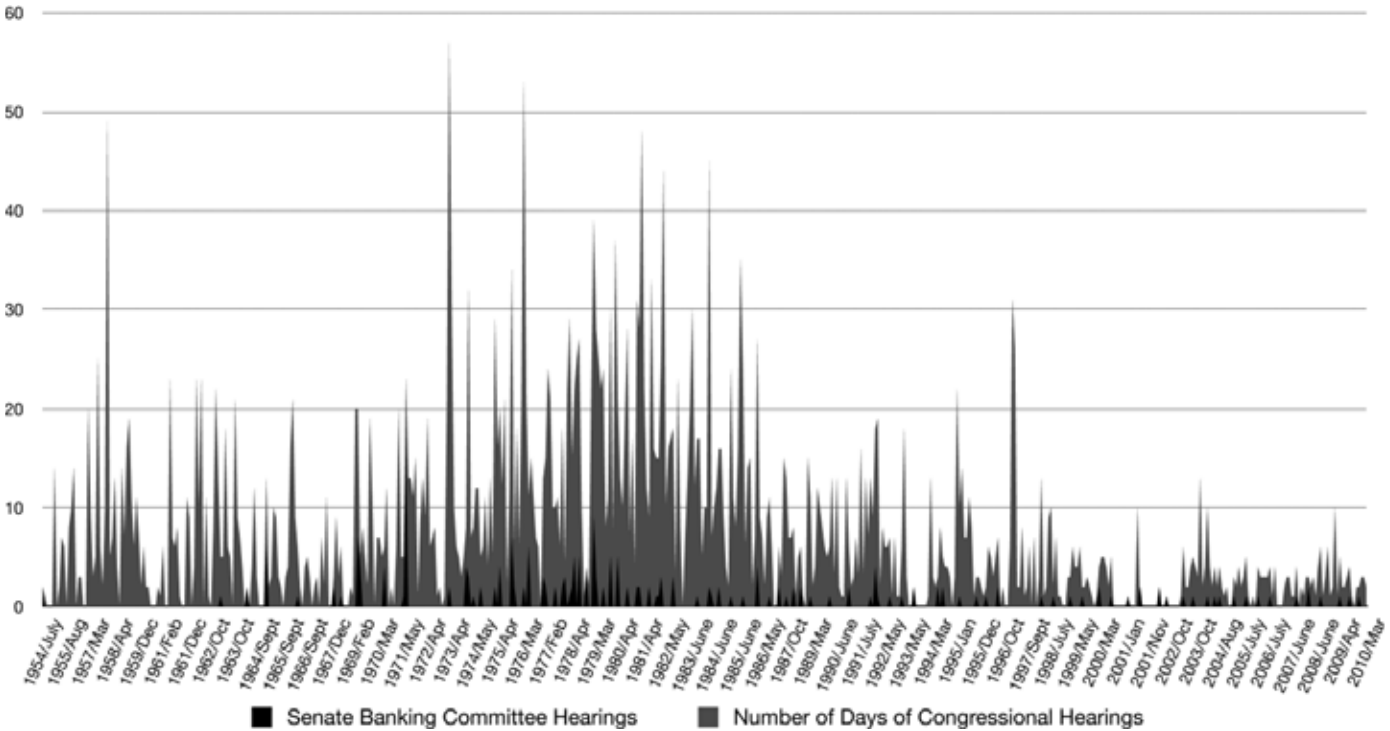

Figure 3.2. Monthly Totals of Congressional Hearings on the Economy July 1954–January 2012.
Adapted from *Policy Agendas Project,* 2014.

Table 3.4. Senate Banking Committee Chairmen Differentiated by Political Affiliation and History.

Banking Committee	*Extracted from the Biographical Directory of the US Congress*	
	Republican Party	*Democratic Party*
1953–1954	Homer E. Capehart (1897–1979) Republican Party (IN) 1945–1963	
1955–1959		J. William Fulbright (1905–1995) Democratic Party (AR) 1945–1974
1959–1966		A. Willis Robertson (1887–1971) Democratic Party (VA) 1946–1966
1967–1974		John J. Sparkman (1899–1985) Democratic Party (AL) 1946–1979
1975–1980		William Proxmire (1915-2005) Democratic Party (WI) 1957–1989
1981–1986	Jake Garn (1932–) Republican Party (UT) 1974–1993	
1987–1988		William Proxmire (1915–2005) Democratic Party (WI) 1957–1989
1989–1994		Donald W. Riegle, Jr. (1938–) Democratic Party (MI) 1976–1995
1995–1998	Alfonse M. D'Amato (1937–) Republican Party (NY) 1981–1999	
1999–2001	Phil Gramm (1942–) Republican Party (TX) 1985–2002	
2001–2002		Paul S. Sarbanes (1933–) Democratic Party (MD) 1977–2007
2003–2006	Richard C. Shelby (1934–) Republican Party (AL) 1987–	
2007–2010		Christopher J. Dodd (1944–) Democratic Party (CT) 1981–2011
2011–2014		Timothy P. Johnson (1946–) Democratic Party (SD) 1997–2014

Adapted from Senate Banking Committee Official Website, 2014.

no)) and (Senate - Democrat (1 = yes or 0 = no); Republican (1 = yes or 0 = no))). To better represent the effect of party on the changes in the FFR, I created two dummy variables that measure changes in party control (Change in Party Leadership (Senate - 1 = yes or 0 = no) and (House - 1 = yes or 0 = no)). I also included a dummy variable that measured the presence of divided government (1 = president and Congress are a different party; 0 = president and Congress are same party).

Economic Indicators (M3)

There are specific economic indicators that are essential to understanding the health of the economy: unemployment rate, inflation rate, and the gross domestic product (GDP). These data are available on the *Bureau of Labor Statistics*. They are monthly and quarterly data. This is crucial for economic policymaking for many reasons. For the third model (M3), I coded the unemployment rate each month (3.4 to 10.8), the inflation rate each month (–2.1 to 14.8), and the quarterly GDP Rate (2332.4 to 13506.4). Political actors, particularly presidents and members of Congress, behave differently during times of recession (Hoffman and Howard, 2010; Wood, 2007; Dolan, Frendreis, and Tatalovich, 2008). To account for this in the model, I created a dummy variable that measures the presence of a recession (1 = yes or 0 = no).

Control Variables

The seven hypotheses presented above are the primary justifications for the analysis; however, consideration of how presidential political party plays into the Federal Reserve's economic behavior, how the presidents' approval ratings play a role, the extent to which the presidential calls for legislation affect the behavior of the Federal Reserve will also offer insight into the Fed's attention to congressional party leadership. Given the lack of previous research on these control variables, this analysis investigated the influence of presidential rhetoric, congressional attention, and economic conditions in the context of these factors.

Dependent Variable

The Federal Reserve is an independent agency that has substantive influence over monetary policy (Morris, 2000). The changes it makes to the Federal Funds Rate are indicative of changes in the overall economy, which is why the FFR was chosen as one measure of the economic behavior of the Fed (Beck, 1982). I obtained the Federal Funds Rate from the Federal Reserve's Statistical Release website from July 1954 through January 2012, as illustrated by figure 3.3. There was no reason to code the FFR as it is already presented in a time-series (monthly) format. The FFR is conveyed in percentages from 0.07 percent to 19.1 each month. The rate does not change every month. There are times when the FFR is the same from month to month. The Federal Reserve Board is under no obligation to change the FFR from month to month. Changing the interest rates or keeping those rates constant is their prerogative.

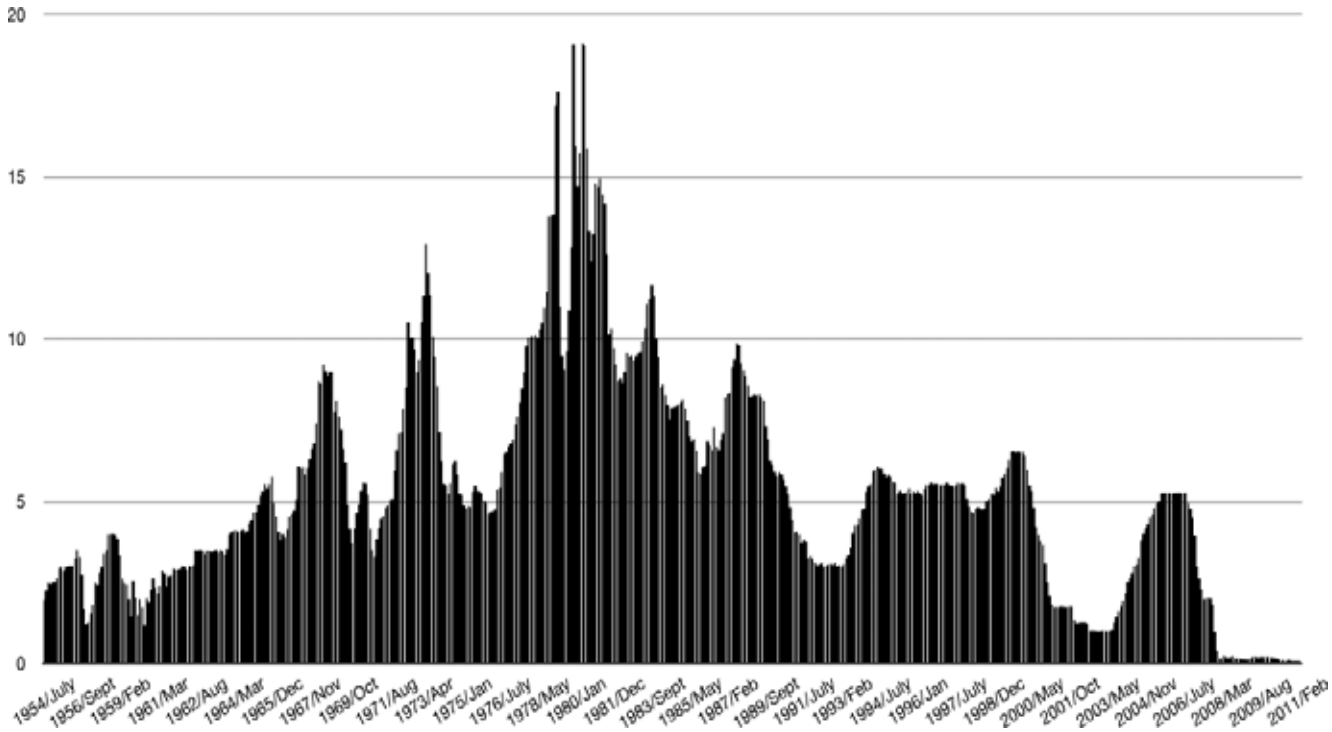

Figure 3.3. Federal Funds Rate from July 1954–January 2012.
Adapted from Federal Reserve Official Website, 2014.

Effect of Presidential Rhetoric on the Federal Funds Rate

The first model (M1) is completely in-line with the hypotheses; the positive or negative rhetoric and the control variables in this analysis do not significantly shape the Federal Reserve's decision to change the FFR consistently over time and in the aggregate. Moreover, the R-Squared and the Adjusted R-Squared values indicate that the model is seriously lacking; the use of presidential rhetoric is not a complete picture of what motivates the economic behavior of the Federal Reserve. To express this, the regression took the form

$$FFR_{i,t} = \alpha + \gamma\text{Presidential } Rhetoric_{i,t} + \hat{\beta}_1 \, Presidential\ Party_{i,t} + \hat{\beta}_2 \, Presidential\ Approval\ Rating + \hat{e}_{i,t} \quad \text{(M1)}$$

This regression enabled me to test the argument that the president's position as the foremost economic leader allows for the use of rhetoric as a mechanism of presidential power that can influence the behavior of economic actors. The specification controls for the $FFR_{i,t}$, wherein the $_i$ represents each individual rate determined by the Fed in each period $_t$ (month). Therefore, I regressed the $FFR_{i,t}$ on the rhetoric of the presidents, a vector of different expressions of presidential speeches ($\hat{\beta}_1 \, Positive\ Ratio_{i,\,(t-1)+(t-2)} + \hat{\beta}_2 \, Negative\ Ratio_{i,\,(t-1)+(t-2)} + \hat{\beta}_3 \, Number\ of\ Positive\ Statements_{i,t} + \hat{\beta}_4 \, Number\ of\ Negative\ Statements_{i,t} + \hat{\beta}_5 \, Number\ of\ Speeches_{i,t} + \hat{\beta}_6 \, Calls\ for\ Legislation_{i,t}$) as well as two control variables signifying aspects of presidential power, namely, party identification and presidential approval ratings.

Table 3.5 presents the coefficients, standard errors, semirobust standard errors,[3] and p-values as well as the measures of fit for the Prais-Winston Regression Analysis. In hypothesis one, I found that the data require a rejection of the null hypothesis. It is not significantly more likely that the estimates of the ratio of positive economic rhetoric have any influence on the Fed's economic behavior with regard to the FFR. Moreover, the number of positive statements had no substantive effect on the FFR either. The data suggest that the Fed either responded to the president's positive economic rhetoric by leaving the FFR where it was or the Fed lowered it, as the alternative hypothesis stated.

The results suggest that the tone, particularly a positive tone, is the not the best measure of classification for presidential rhetoric and its effect on the economic behavior of the Federal Reserve. As illustrated by figure 3.4, there are peaks of presidential positivity regarding the economy; these peaks typically correlate with times of economic prosperity, as measured by standard economic indicators of the economy's health (Dolan, Frendreis, and

Table 3.5. Prais-Winston Regression Estimates of Presidential Economic Rhetoric on the FFR.

	Dependent Variable: FFR (Monthly) July 1954–January 2012 N = 568			
	(M1) Rho = 0.9829			
	Coefficients	*Standard Errors*	*SemiRobust Standard Errors*	*p Values*
Ratio Positive Statements	0.0183	0.0897	0.0650	0.839
Ratio Negative Statements	0.1838	0.1166	0.2144	0.116
Positive Lag 1	–0.0327	0.0888	0.0634	0.713
Positive Lag 2	0.0671	0.0762	0.0609	0.379
Negative Lag 1	0.1190	0.1023	0.1692	0.245
Negative Lag 2	0.0576	0.0920	0.1181	0.533
Number Positive Statements	–0.0069	0.0246	0.0171	0.779
Number Negative Statements	–0.0213	0.0382	0.0487	0.577
Number of Speeches	0.0019	0.0030	0.0031	0.531
Calls for Legislation	–0.0161	0.0302	0.0205	0.595
Presidential Approval Rating	0.0005	0.0055	0.0061	0.927
Presidential Party	–0.1659	0.2462	0.1500	0.501
F (12, 555) – Statistic = 0.52 (p = 0.9024)		R – Squared = 0.0111		
Adjusted R – Squared = –0.0103		MSE = 0.63963		

Tatalovich, 2008). Despite concentrated efforts by presidents to use toned rhetoric to shape behavior, the tone does not adequately engender a response to their entrepreneurial agenda. The results suggest, rather, that the Federal Reserve is responsive to other conditions more so than the notion that they are attentive to the presidential cues regarding the direction the economy should go in the future.

In hypothesis two, I also found that the data require a rejection of the null hypothesis. It is not significantly more likely that the negative economic rhetoric substantively influences the Fed's economic behavior with regard to the Federal Funds Rate (FFR). The changes that did transpire in the FFR are statistically indecipherable from no change; it is important to note, however, that the p-value was 0.116. The data suggest that the Fed either responded to the president's aggregated, negative economic rhetoric by leaving the FFR where it was or the Fed raised the FFR, as the alternative hypothesis stated.

As illustrated by figure 3.5, the negative rhetoric encompasses only 30 percent of the total statements on the economy. The role the presidents play in economic discussions is a difficult balancing act; presidents do not want to

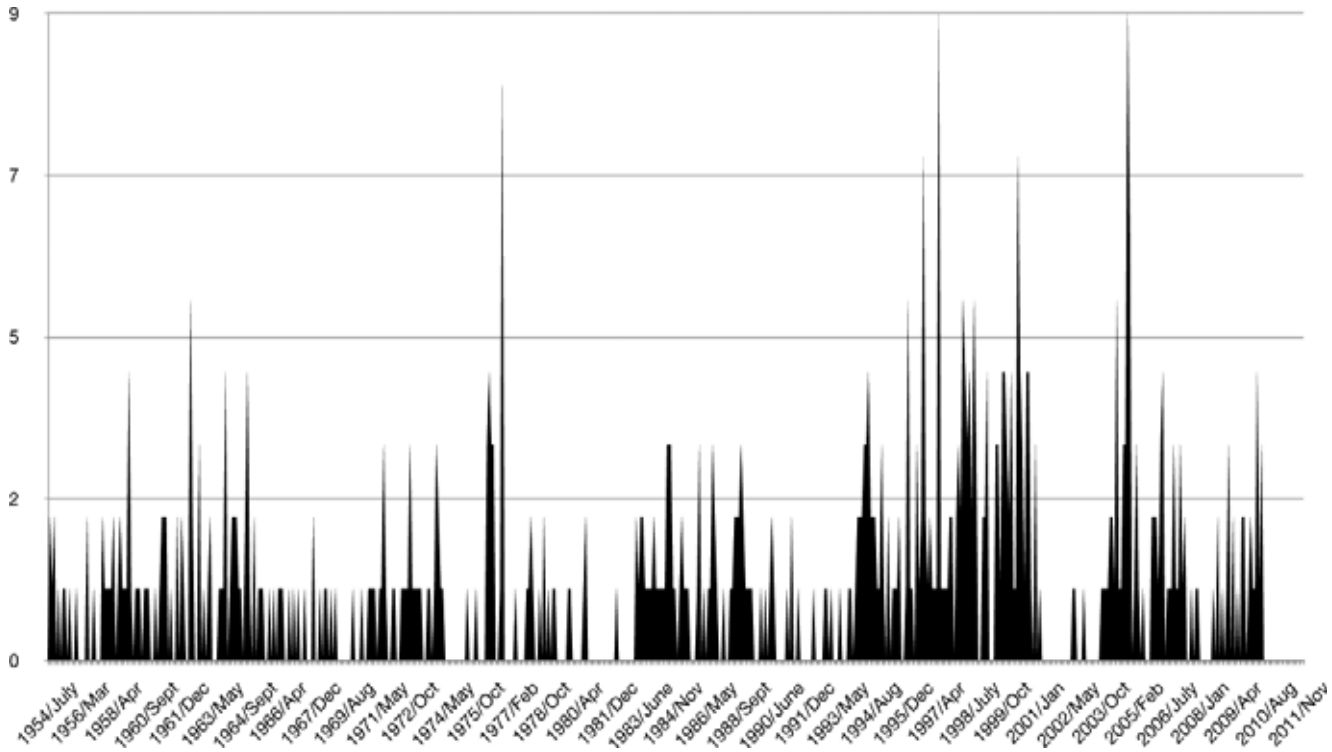

Figure 3.4. Monthly Totals of Presidential Positivity July 1954–January 2012.
Adapted from *American Presidency Project*, 2014.

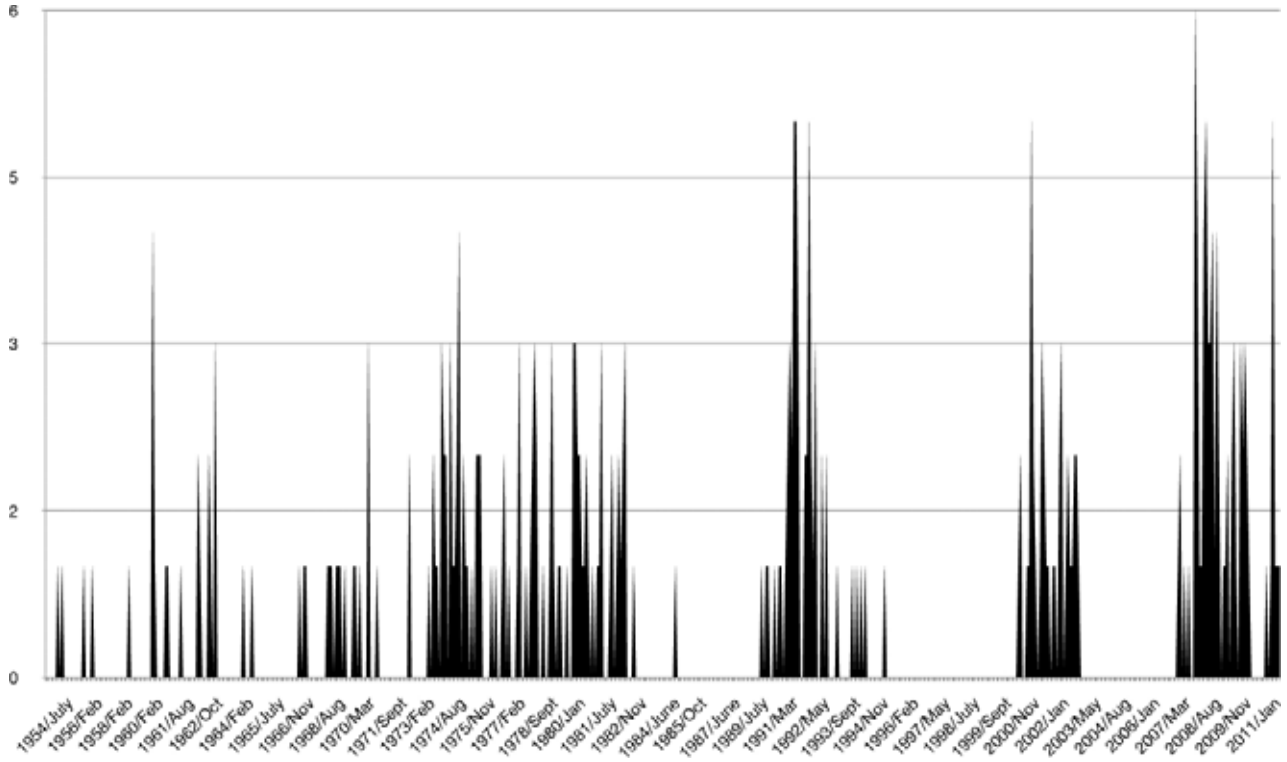

Figure 3.5. Monthly Totals of Presidential Negativity July 1954–January 2012.
Adapted from *American Presidency Project*, 2014.

bring too much attention to the flailing economy with their negative rhetoric. They run the risk of an electoral backlash wherein the public blames them for the state of the economy (Vavreck, 2009). This reality might somewhat factor into the presidential strategy of discussing the economy positively most of the time. Nearly 55 percent of their economic rhetoric is positive; it is a redirection of sorts (Arthur and Woods, 2013).

The data suggest that classifying presidential economic rhetoric in terms of negativity is not the most effective approach for ascertaining the influence presidents have over economic actors either; this type of rhetoric is used too infrequently to garner a significant influence. The impetus for changes in the FFR seems to be influenced by other conditions rather than toned presidential rhetoric. I must note, however, that the more negative speeches the president gives, there is a about a five percent negative change in the FFR.

The second model (M2) is also completely in line with the hypotheses; congressional actions and party control provide an appropriate measure of influence on the changes to the FFR. To express this, the regression took the form

$$FFR_{i,t} = \alpha + \gamma\text{Member } Party\ Affiliation_{i,t} + \gamma\text{Congressional } Attention_{i,t} + \hat{\beta}_1 Presidential\ Party_{i,t} + \hat{\beta}_2 Divided\ Government_{i,t} + \hat{e}_{i,t}$$

This regression enabled me to test the argument that the Federal Reserve is more responsive to congressional party affiliations, party changes, and their attention to the economy rather than presidential rhetoric and influence. Again, the specification controls for the $FFR_{i,t}$, wherein the $_i$ represents each individual rate determined by the Fed in each period $_t$ (month). Again, we regress the $FFR_{i,t}$ on member party affiliations, a vector of various representations of the importance of party ($\hat{\beta}_1$ *Party Sen. Banking Committee Chair*$_{i,t}$ + $\hat{\beta}_2$ *Party Change Senate*$_{i,t}$ + $\hat{\beta}_3$ *Party Change House*$_{i,t}$ + $\hat{\beta}_4$ *Party Control House*$_{i,t}$) and another vector of congressional attention ($\hat{\beta}_1$ *Days of Congressional Hearings*$_{i,t}$ + $\hat{\beta}_2$ *Days of Senate Banking Comm. Hearings*$_{i,t}$) as well as two control variables: divided government and presidential party.

Table 3.6 presents the coefficients, standard errors, semirobust standard errors, and p-values as well as the measures of fit for the Prais-Winston Regression Analysis. Congressional actions and party control provide a better mechanism for assessing the economic behavior of the Federal Reserve. In hypothesis three, the data suggest that the Chairperson of the Senate Banking Committee (SBC) has a substantive influence with the economic decision-making of the Federal Reserve. As presented by table 3.6, the Fed is significantly more likely to raise the FFR when the chairman of the Senate

Table 3.6. Prais-Winston Regression Estimates of Congressional Economic Behavior on the FFR.

	Dependent Variable: FFR (Monthly) July 1954–January 2012 N = 550			
	(M2) Rho = 0.9772			
	Coefficients	*Standard Errors*	*SemiRobust Standard Errors*	*p Values*
Sen. Bank Comm. Chair Party	1.514	.2535	0.8031*	0.0000
Days Congress Hearings	–0.0019	.0030	0.0040	0.5280
Sen. Bank Comm. Hearings	0.0274	.0164	0.0220	0.0960
Senate Party Change	0.9869	.1921	0.5458*	0.0000
House Party Change	–1.521	.3734	0.6855**	0.0000
Party Control in House	–1.504	.5013	0.8357*	0.0030
Divided Government	0.9574	.2072	0.4602**	0.0000
Presidential Party	0.0348	.2420	0.2090	0.8860
F (8, 541) – Statistic = 8.77 (p = 0.0000)		R – Squared = 0.1148		
Adjusted R – Squared = 0.1017		MSE = 0.61316		

*p < 0.1

**p < 0.05

Banking Committee is a Republican, indicating that the Fed pays attention to the party ideology in Congress regarding the economy. In this instance, the Fed pursued a contractionary monetary policy (higher interest rates) more so when a Republican was the chairman of the SBC.

In hypothesis four, I measured the effect of congressional hearings in two different ways—number of days of hearings on the economy and number of days of hearings in the Senate Banking Committee regarding monetary policy. The statistical effect of the overall number of hearings on the economy indicates that the more hearings on the economy Congress has the more likely the Fed would *lower* the FFR; the effect, however, was not distinguishable from zero. The hearings in the Senate Banking Committee did have a measurable effect, however; it was only at the 0.10 alpha level. The more hearings on the economy the SBC has the more likely the Fed *raised* the FFR.

To further measure the effects of Congress on the changes in the FFR, I assessed when each chamber had a change in the majority party. As seen in table 3.6, party changes in Congress had a substantive impact on the Fed's economic behavior. For instance, when a party change occurred in the Senate, the FFR increased substantially and when a party change occurred in the

House, the FFR decreased substantially. One could speculate that the Fed is aware of the significance and magnitude of a particular party going from the minority party with constrained influence to the majority party, who possesses the ability to intervene in the Fed's organization, mission, and existence. Regardless of what caused the changes in the chambers, these results suggest that that Fed responds to these changes. Moreover, as seen earlier, the Fed responds to the party ideology of the respective majority party.

The results here indicate that the Federal Reserve is attentive to Congress when considering whether to change the FFR. At the very least, the Fed considers factors such as the majority party in congressional leadership, political ideology, and political climate when choosing a particular course of action regarding monetary policy.

The third model (M3) is partly in-line with the hypotheses; the economic indicators mostly provide an appropriate estimate of the Fed's economic behavior. To express this, the regression took the form

$$FFR_{i,t} = \alpha + \gamma\text{Economic } Indicators_{i,t} + \hat{\beta}_1 \, Presence\ of\ a\ Recession_{i,t} + \hat{e}_{i,t}$$

This regression enabled me to test the argument that the Federal Reserve is more responsive to the conditions related to the economy rather than presidential rhetoric and influence. Again, the specification controls for the $FFR_{i,t}$, wherein the $_i$ represents each individual rate determined by the Fed in each period $_t$ (month). Again, we regress the $FFR_{i,t}$ on the economic conditions, a vector of various economic indicators ($\hat{\beta}_1 \, Unemployment\ Rate_{i,t} + \hat{\beta}_2 \, Inflation\ Rate_{i,t} + \hat{\beta}_3 \, Gross\ Domestic\ Product_{i,t}$) as well as a control variable, the presence of a recession. Table 3.7 presents the coefficients, standard errors, semirobust standard errors, and p-values as well as the measures of fit for the Prais-Winston Regression Analysis. Economic indicators provide a better indicator for changes in the FFR than presidential rhetoric does.

In hypothesis five, I measured the effect of GDP on the FFR. The Fed raised the FFR as the GDP went down indicating that the direction in the hypothesis was correct. The result was indecipherable from zero, as was the dummy variable measuring the presence of a recession. As expected, in hypotheses six and seven, the unemployment rate and the inflation rate, seem to be profoundly instrumental in the Fed's decision to change the FFR, as illustrated by table 3.7. In each decision that the Fed makes, whether to raise or lower the FFR, there is a significant result for unemployment and inflation. Particularly, as the unemployment rate decreases, the Fed raises the FFR, an indicator that the economy is getting better. These data suggest that the Fed is most likely responding to the economic indicators rather than the

Table 3.7. Prais-Winston Regression Estimates of Pertinent Economic Indicators on the FFR.

	Dependent Variable: FFR (Monthly) July 1954–January 2012 N = 550			
	(M3) Rho = 0.9787			
	Coefficients	*Standard Errors*	*SemiRobust Standard Errors*	*p Values*
Unemployment Rate	–0.6450	0.1253	0.1874**	0.000
Inflation Rate	0.1836	0.0584	0.0761*	0.002
Gross Domestic Product	–0.0002	0.0003	0.0002	0.524
Recession	0.0351	0.1509	0.0984	0.816
F (4, 545) – Statistic = 9.70 (p = 0.0000)			R – Squared = 0.0665	
Adjusted R – Squared = 0.0596			MSE = 0.6273	

*p < 0.05

**p < 0.001

rhetoric from the president, which makes sense given their legal obligation and concern with inflation and unemployment (Edwards and Wood, 1999). Therefore, one might speculate that if the economy is getting better, the Fed is more likely to raise the FFR as a result of those healthful indicators rather than the positive rhetoric from the president, which is most likely a result of the positive economy.

Conclusion

The Fed is responsible for regulating inflation by altering interest rates on monies loaned to banks. Their ability to change the Federal Funds Rate has a substantial impact on the economy (Frumkin, 2004). Because of the Fed's role in the economy, presidential administrations are highly concerned with this bureaucratic organization; the decisions the Fed employs can make the achievement of other economic policy goals difficult. Yet, there is no consensus or substantive discussion in the literature as to the ability of the president to effectively use rhetoric, cues, and signals to shape the economic behavior of one of the most substantial economic actors—the Federal Reserve. However, extent research indicates that political actors respond and produce cues as a mechanism of political behavior and persuasion (Yates and Whitford, 2005; Eshbaugh-Soha, 2006; Edwards and Wood, 1999; Light,

1999). Therefore, this analysis sought an answer as to whether presidents try to shape the Fed with rhetorical cues and the extent to which they are successful.

There is a literature that argues that presidential rhetoric is able to motivate certain economic actors by signaling their tone, their political position, and their level of commitment (Wood, 2007; Eshbaugh-Soha, 2006). However, that literature, specifically, glosses over the externalities that potentially affect the changes in the economy, the constraints of the separated system of American government, and the limitations inherent in the president's ability to use rhetoric to achieve desired results. My analysis has allowed for a more comprehensive research operationalization rather than arguing that the president's ability to change economic indicators comes from his position as the most important economic actor in the system (Wood, 2007; Eshbaugh-Soha, 2007). By expanding the data sources and the audience of pertinent economic actors, I offered a more comprehensive assessment of presidential influence with economic actors and the results suggests that previous research might not be the definitive word on the presidential influence (Wood, 2007).

These results have further contributed to the extant literature by ascertaining that the president does intend to cue or signal the Fed about which direction he wants monetary policy to go in the future. Further, it determines that the president, through the use of positive and negative economic rhetoric, is not overly successful in shaping the Fed's economic behavior, as seen in the changes to the Federal Funds Rate. This analysis does confirm what others have stated, namely, that presidents have increased their rhetoric on the economy significantly (Wood, 2007). However, my research suggests that the increased rhetoric and attention to the economy has not brought about the desired effects for which presidents advocate. The changes in the FFR were not statistically significant and could not be recognized from zero. Moreover, when considering the Fed's claim of independence from politics, it is unlikely that they would risk congressional intervention and changes to their organization because they did the bidding of a sitting president. Secondly, the Fed is unlikely to help a sitting president in an election year; the Fed's intervention in an election may harm the organization more so than any political capital it may gain by meddling (Beck, 1982). Therefore, it is more likely that the economic behavior of the Federal Reserve is shaped by congressional party affiliations, party changes, and their attention to the economy as well as economic indicators rather than the cues and signals the president sends to the Fed.

The results actually provided three specific components that show the extent to which the Federal Reserve pays attention to the presidents' rhetoric, congressional actions, and indicators of the economy's strength. Conducting the analysis in this manner provided a picture of how the presidents discuss the economy in their speeches, particularly with regard to the tone. These results suggest that the Fed did not respond to the rhetorical cues and signals; the rhetorical assessment of the economy does not shape how the Federal Reserve reacts to presidential assessments of the economy. The presidential rhetoric did not have a substantive effect on the raising or lowering of the FFR because of the tone within speeches (positive/negative). Such an understanding provides insight into presidential influence over economic actors and the economy; it is clear that the lack of significance in presidential rhetoric's ability to predict changes in the Federal Funds Rate is telling from a "rhetoric as mechanism of influence" perspective. Despite presidential attempts to tailor their rhetoric to influence specific actors, they are incredibly unsuccessful, in nearly every way.

Notes

1. Regressing the FFR on every variable in all three models was not substantively different than creating three models. It made more sense, theoretically, to differentiate the models.

2. I must attach a word of caution about some of my hypothesis. Publishing null hypotheses is difficult. However, it is not unprecedented when warranted. Many scholars have done this. Not all of the hypotheses in the entire book take the "null hypothesis" approach, however. Those that do are warranted. However, I must argue that this analysis, based upon the theory and its response to the extant literature, warrants the "null hypothesis" approach. Therefore, if there is no effect, I am correct; there is no consideration of the magnitude by which rhetoric affects the FFR. I was not interested in magnitude, but rather the president's ability to influence the decision making of an economic actor with the tone present in the rhetoric. I assume that my alternative hypothesis is correct until I could find evidence that it was incorrect. No such evidence could be found in this instance. I set up the analysis this way on purpose. I know that it makes it easier to obtain and justify my results. I think that the analysis still warrants a contribution to the literature. I took multiple measures to ensure that I gave presidential rhetoric a chance to make an impact. I differentiated the rhetoric by the tone of the speech, the type of speech as well as the time-period; it was not a simple aggregation of words. However, one could still read the results with caution because the rhetoric used was a stratified random sample and not the complete analysis of every word every president spoke.

3. The Semi Robust Standard Errors were included in the Tables to simply indicate the changes that the Cochrane–Orcutt estimation made to the standard errors in the Prais-Winston Regression Analysis. The significance of each variable was not changed substantively. However, I have indicated the changes in alpha levels, which were noteworthy.

About the Author

C. Damien Arthur is an assistant professor of political science at West Virginia State University, a public land-grant and historically black university (HBCU). His research has focused upon, primarily, presidential rhetoric in relation to salient policies such as economics, institutional interaction, and immigration as well as religion. His most recent work has been published in *Presidential Studies Quarterly* and *Sociological Spectrum*.

He completed a PhD in political science at West Virginia University. He has an MA in American public policy and an MPA in public administration from West Virginia University. He also completed an MTS in religion, culture, and personality at Boston University's School of Theology, *magna cum laude*. He received a BA in theological studies from Gordon College in Wenham, MA.