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Fed Policy During Presidential Election Years

Generally speaking, Fed rate changes in election years have not been significantly different than non-election years. Looking at US election year data back to 1955, the Fed Funds rate has increased in election years by an average of 135 bps, and decreased in election years by an average of about 140 bps. Upon closer examination, however, it does appear that the Fed does become more reluctant to changing policy within two months of an election. In addition, if warranted, the Fed appears more likely to cut rates if needed as an election approaches than they are to increase rates if needed.

		Fed Policy Action in Election Years			
Election Year	Incumbent	Hike in election year	Cut in election year	Hike 2 months ahead of election	Cut 2 months ahead of election
1972		-	-	-	-
1976		-	Yes	-	Yes
1980		Yes	Yes	Yes	-
1984		Yes	Yes	-	Yes
1988		Yes	-	-	-
1992		-	Yes	-	Yes
1996		-	Yes	-	-
2000		Yes	-	-	-
2004		Yes	-	Yes	-
2008		-	Yes	-	Yes
2012		-	QE3	-	QE3
2016		Yes	-	-	-
2020		-	Yes	-	-

Rate Hikes less common

Historical Perspective: The Fed & US Elections

Generally speaking, incumbent Presidents prefer a stronger economy. While there has been only one clearly documented case where a Fed Chair actually changed rates in response to Presidential pressure in an election year – President Nixon and Fed Chair Arthur Burns in 1972 – there have been numerous instances historically where an incumbent President or Presidential nominee has encouraged a Fed Chair to change policy.

Election Year	Incumbent Party Candidate	Opposition Party Candidate	Fed Chair	Monetary Policy Observation
1964	Lyndon Johnson	Barry Goldwater	William Martin	Fed Chair Bill Martin revealed that President Johnson repeatedly "bullied" him on monetary policy
1972	Richard Nixon	George McGovern	Arthur Burns	White House tape recordings revealed President Nixon pressuring Fed Chair Burns to cut rates (which he did). Nixon also blamed his 1960 defeat on Fed Chair Bill Martin.
1980	Jimmy Carter	Ronald Reagan	Paul Volker	Some Democrats blamed the Fed for raising rates before the election, though inflation was above 14%
1984	Ronald Reagan	Walter Mondale	Paul Volker	Fed Chair Volcker subsequently revealed that Chief of Staff Jim Baker, with President Reagan present, strongly encouraged him to not raise rates in the election year
1992	George H.W. Bush	Bill Clinton	Alan Greenspan	Years later (1998), former President Bush attributed his 1992 re-election loss to Greenspan not cutting rates aggressively after the 1990-91 recession (cut in Sept '92, unchanged in Oct '92)
2016	Hilary Clinton	Donald Trump	Janet Yellen	Republican nominee Trump campaigned that Fed Chair Yellen "should be ashamed of herself" for easy monetary policy
2020	Donald Trump	Joe Biden	Jerome Powell	As the trade war progressed, President Trump reprimanded Fed Chair Powell repeatedly for not lowering rates sufficiently

Source: (1-2) The GailFosler Group, "The Federal Reserve and the Presidential Election Cycle" (Bernadette Kilroy Martin)."Is the Fed Politically Biased? Look at its Interest-Rate Decisions as Elections Near" (Puzzanghera and Lee). "Election Year Unlikely to Sway Fed on Interest Rates" (Richard Berger). Bloomberg. Fred Economic Data St. Louis Fed. Note: Discount rate used before 1988. Fed Fund based on upper bound.

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