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Who Influences the Fed? Presidential Versus Congressional Leadership

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ABSTRACT

This paper examines political influences over U.S monetary policy, analysed quarterly from 1953 to 2000. We use indicators of presidential and congressional ideology as predictors of actor preferences and as representative of overhead democracy. We also include several economic variables predicting percent change in the federal funds rate. While not surprised to find that economic conditions are important in explaining Fed decisionmaking, we also find that the theory of overhead democracy also contributes to the explanation. Initially, both presidential and congressional ideology are important but in a combined model, presidential variables wash out influence of congressional variables. Thus, we conclude that overhead democracy must be included in models predicting Fed decisionmaking.

Today monetary policy is just as important if not as salient as fiscal policy to the American public. Both elements are central in assessing economic policy. The public participates in rather than simply observing the economy, and monetary policy has a direct and dramatic impact on economic and political aspects of U.S. society. Almost every day, the news media covers changes in monetary policy and activities of its primary decisionmaker, the Federal Reserve Board (the Fed). Interest groups too are vitally interested in Fed decisions. Apart from these non-governmental actors, political officials are also concerned about monetary policy. Understanding and explaining monetary policy is crucial for studying U.S. economic policy. Thus, who influences the Fed is an important research question for scholars.

The Federal Reserve System, the nation's central bank, has a hierarchical structure. The Fed's Board of Governors is its top decisionmaking body and formulates national monetary policy. The Federal

Reserve Board is legally an independent regulatory agency, which is supposed to be insulated from political influences. Members serve 14 years staggered terms and, unlike virtually all other government agencies, the Fed does not even depend upon congressional appropriations for its funding. Often, the independence of the Federal Reserve Board is harshly criticized by Congress, presidents, interest groups, or the mass media. Although involved in the selection of its members, legally other governmental actors are limited in their ability to interfere with the Federal Reserve's decision making in monetary policy. Thus, the Fed is often seen as one of the most powerful governmental institutions by scholars as well as by the general public.

Nonetheless, the Fed may not be completely insulated from political institutions. Especially, some mechanisms of Federal Reserve, such as the membership of the Board and the Governors' duties of congressional testimony, suggest potential influence by political institutions on the agency. The president nominates Governors subject to Senate confirmation and Congress frequently requests the Fed to testify about economic conditions. Indeed, Congress now requires frequent appearances by the Fed before one or more of its bodies. Therefore, scholars have questioned whether this seemingly powerful independent agency is free of political influences (Beck 1984; Woolley 1984; Cukierman 1992; Krause 1994; Havrilesky 1995; Morris 2000).

Despite its considerable autonomy, numerous actors and conditions could influence the Fed's discretionary decisions. This study examines the relative importance of presidential ideology and the Senate Banking Committee Chair's ideology as political variables along with the influences of economic factors as influences on the Federal Funds Rate (FFR). The ideologies of these two actors are used as both compositional and interactive variables with economic factors. We expect that any influences from the political branches on this highly independent agency would suggest support for the theory of overhead democracy. Our analysis should tell us whether political actors (especially the president and a subset of Congress) influence the Fed, as well as the economic conditions of the nation.

Overhead Democracy Theory

The overhead democracy theory asserts that elected principals exert important influence on unelected bureaucrats (Wood and Waterman 1994). Even those who favor such top-down approaches to interactions recognize that such a model does not always exist and varies according to such factors as agency status. Indeed, the above authors find that independent agencies have more discretion than those affiliated with

departments. Rather than top-down, the opposite view of bottom-up influence is advanced by Brehm and Gates (1997). They apply a highly sophisticated model and diverse data sources and find considerable evidence of bureaucratic discretion. This view is supported by analyses by Scholz et al. (1991), Sabatier (1995), and Meier, et al. (1991) who reveal considerable agency discretion by local or field level offices. Other scholars favor a mixed model, recognizing both top-down and bottom-up influences in policymaking (Rinquist 1995; Eisner and Meier 1990; Bender and Moe 1985).

Policy Typologies

Much literature offers a policy content explanation of the power of presidents relative to Congress in U.S. policymaking and this may relate to the overhead democracy thesis. Clearly, policy area differences constrain the behavior of both branches. The policy area approach is based upon the theory that policy content 'structure[s] the interests involved and help[s] determine the political arenas in which decisions are contested or made' (Spitzer 1983, xiv). As a result, variations in the content of policies under consideration stimulate variations in the roles and behaviors of actors. Scholars have suggested that differences in policy content can be substantive (King and Ragsdale 1988) or functional in nature (Lowi 1964). Shull (1997) has examined both substantive and functional typologies in attempting to explain presidential versus congressional influence.

Most authors view the president as more important in foreign policy and Congress as more influential in domestic policy making. This view was propounded by Wildavsky's (1966), classic two presidencies thesis. Researchers subsequent to Wildavsky continued to find differences in presidential influence over Congress between domestic and foreign policy, but generally not the wide diversity Wildavsky asserted (LeLoup and Shull [1979] 1991). Authors recognize that budget and/or economic issues blur the two presidencies thesis. Indeed, the U.S. economy increasingly is globalized and greatly overlaps both domestic and foreign policies. Increasingly, however, we find that presidents are often held responsible for the state of the economy and often try to influence the economy, especially around election time (Nordhaus 1975; Lindbeck 1976; Tufte 1978). Monetary policy actions have been shown to have important short-run redistributive consequences.[1] Redistributive policies involve taking benefits from one group and giving them to another and monetary policy is likely to be one of those policies that involve conflictual interests. The upper middle and upper classes are likely to prefer a contractionary policy, since their primary concern

would be inflation, which is a devaluation of their assets. On the other hand, lower-middle and lower classes should prefer an expansionist monetary policy, since unemployment has a direct impact on these lower economic classes. In such a polarized policy area, as Lowi observes, large incentives exist for the president to exert influence and reduce the class tensions. Also, the president has his own preference in monetary policy largely based on his constituents. Thus, while the president is likely to pursue a collective benefit among contested interests in monetary policy, his action may be biased by his own preferences. Unlike our previous efforts to use non variable party to measure presidential ideology, we have chosen to examine a varying and, thus, richer measure here.

We also examine the influence of Congress in monetary policy since the legislators are likely to have their preferences based on perceived preferences of their constituents and their reelection prospects. The Senate may be a particularly important influence in Fed decisions because of its confirmation power of Governors by a simple majority vote, who are nominated by presidents. Because Congress is highly decentralized, members favor decision making at lower institutional levels, such as committees, and the Senate Banking Committee takes a particular interest in Fed activities. Thus, we study relative influences of presidential ideology and the ideology of the Senate Banking Committee chair, and argue that the president is more influential than a congressional committee in monetary policy.

Finally, we examine the influence of economic considerations on Fed decision making. We assume that economic conditions are important in such decisions and include indicators for unemployment and inflation. Despite our recognition of the Fed as among the most independent of all federal agencies, however, we argue that economic conditions do not tell the entire story of the agency's decisions. Political conditions should also contribute to the decisions made by the Fed and if we find importance for political ideology, then the theory of overhead democracy will find some support in explaining Fed decisions. The next section discusses the bases for these potential political influences.

Political Influences on Monetary Policy

The importance of political versus economic variables is of interest in this research and, of course, relate to overhead democracy. We argue that political factors will be important even on such a highly independent agency as the Fed. In his explanation of the reaction function, Havrilesky emphasizes that policymakers react to the state of the economy as well as to political factors in monetary policy (1995, 202–3). Moe

(1985) and Scholz and Wei (1986) debate the relative importance of political versus economic influences on independent agency decision making and find political factors to be more important. Thus, we argue that both the president and Congress will try to influence monetary policy.

President

Moe (1985) observes that the key mechanism of executive control of the agencies is the appointment power. Modern presidents select administrative leaders not only for their expertise, but also for their presumed compliance in administering the president's plans. The Reagan presidency epitomized the use of the appointment power for obtaining officials congruent with his policy preferences (Nathan 1983, Weko 1995; Kerbel 1991; although see Eisner and Meier 1990). Nathan argues that Nixon's and Reagan's politicization of the agencies contributed to tight control of bureaucracy although it took substantial time. Similarly, Weko observes that centralization of appointment decisions in the presidential personnel office increased presidential control of agencies.

As Morris (2000) presented with his data, nevertheless, the number of appointment opportunities to the Board of Governors for the president is limited. On average, the president appoints about two Governors over his four-year term in office. Thus, it is mathematically possible but practically unlikely to gain a near majority of Governors during eight years just as the president is ready to leave office. Even if all the appointees were loyal to the appointing president, the president is unlikely to have the opportunity to appoint enough Governors to have majority vote of the Federal Open Market Committee. However, the president could bargain appointments in exchange for a preferred change in monetary policy. The president could refuse to appoint a person whom the serving governors would like or could also appoint a person whom the serving Governors would like to avoid.[2]

Next, the president could be an active agenda setter in the legislative arena. When the president is discontent with policymaking by the Federal Reserve, he could influence the legislative agenda for legal devices to constrain the Fed, such as reorganization, legislative veto-like decisions, and/or strengthening oversight functions. Thus, the president has constitutional and inherent powers that can be used to influence the Federal Reserve.

Presidents may have ideological incentives for influencing monetary policy in order to promote the interests of his constituents. Partisanship often arises in economic policymaking, even in a system of weak or

less programmatic parties as in the U.S. Over time, the higher income Republican constituency continues to be more concerned with inflation than with unemployment (Alesina and Sachs, 1988). In contrast, recession and unemployment has had a greater impact on the lower-middle class, primarily a Democratic constituency (Hibbs 1987; Alesina, Roubini, and Cohen 1997). In the United States, Hibbs (1987) observes that Democratic presidents experience higher inflation rates and lower unemployment rates than do Republican presidents. Alesina, Roubini, and Cohen (1997) find a similar result. Alesina and Sachs (1988) examine monetary policy between 1949 and 1984. They find larger monetary growth under Democratic presidents than under Republican presidents, and contend that it is because the Democrats are more concerned about employment (see also Saeki and Shull 2002, 144). Also, Chappell, Havrilesky and McGregor (1993) find that Democratic appointees of the Board of Governors are more likely than Republican appointees to favor easing monetary policy.

Thus, presidents should have different preferences in monetary policy based on their ideologies. Whereas much literature focuses on the influence of the presidential party on monetary policy, we examine influences of the president's ideology as measured by the ADA score. The Americans for Democratic Action, a liberal interest group, compiles this score annually. As the literature on presidential party indicates, a liberal president is likely to prefer an expansionist policy, since unemployment could be a primary concern for lower classes, which are major constituents for liberal presidents. Inflation is a greater problem for upper-middle and upper classes, and thus, it is a major concern for a conservative president. Therefore, a conservative president is likely to influence the Fed for a contractionary policy.

Nonetheless, a conservative president's preference for a contractionary policy may be modified when the unemployment rate is relatively higher. Since the president represents the interests of the nation as a whole, conservative presidents may have to alleviate their own ideological preferences for improving the employment condition of the nation. As Figure 1 shows, we hypothesize that a conservative president's influence for a contractionary policy is modified when the unemployment rate is higher. Although a liberal president is likely to influence the Fed for an expansionary policy, he may have difficulty in pursuing his ideological preference when the inflation rate is higher. Again, the liberal president may have to give priority to high inflation, a national problem, even over his own preference.

Senate Banking Committee Chair

As we explained above, we examine congressional influence on monetary policy in order to compare with presidential influence. As the over-

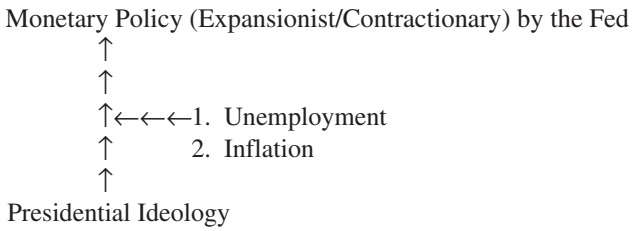

FIGURE 1: *Interactive Influences of Economic Conditions and Presidential Ideology on Monetary Policy*

head democracy theory suggests, Congress may influence the Fed because of its resources, such as the oversight function, legislative agenda-setting, and senatorial confirmation of the presidential appointment of the Governors. While the influence of legislative oversight remains controversial (Hinkley 1990; Aberback 1990), Congress still has other resources, such as senatorial confirmation of presidential appointments and its legislative power. The Governors may be compliant to Congress in order to secure their presidential appointment. Also, Congress has the power of using legislation for monitoring, constraining and/or reorganizing the Fed. In 1978, for instance, Congress passed the Humphrey-Hawkins Act, which mandated the Fed Chair's testimony be given semi-annually.

However, scholars observe that Congress is highly decentralized and committees, especially committee chairs, have substantial autonomy. Ripley and Franklin (1976) suggest that subgovernment politics congressional activities. Fiorina (1977) contends that the subcommittee government drastically increased the electoral security of the incumbents because of its capability of providing pork barrel projects. Although the post-1974 reform Congress and the post 104th Congress centralized the legislative structure somewhat, committees and even subcommittees are still the centers of Congressional policymaking and legislative oversight (Davidson and Oleszek 1996, 199). Woolley (1984) observes that in a direct confrontation over the conduct of monetary policy or an attempt to reduce the Fed autonomy, the banking committees of the House and the Senate are usually the source of action (1984, 133). While the banking committees of both the Senate and the House could be the major actors in legislative oversight, the Senate Banking Committee is likely to be an influential player in a logrolling both for senatorial confirmation of presidential appointment and for potential legislation concerning banking and monetary policy. Grier (1991) and Caporale and Grier (1997) study the impact of the ideological composition of the chair of the banking committees of the

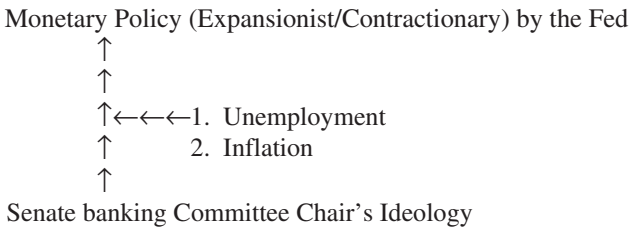

FIGURE 2: *Interactive Influences of Economic Conditions and Senate Banking Committee Chair's Ideology on Monetary Policy*

House and Senate. They find that the changes in the policy preferences of the leadership of the Senate Banking Committee influence the rate of growth in the money supply.

Committee chairs in Congress have substantial authority. They allocate committee funds, arrange hearings, call meetings, establish agendas, and develop legislative strategies. By simply refusing to schedule a hearing for a bill, committee chairmen could kill the bill. Also, chairmen may convene meetings when proponents or opponents of the legislation are unavoidably absent (Davidson and Oleszek 1996, 213). Similar to Grier's study, therefore, the empirical study in this chapter focuses on the influence of the ideological disposition of the Senate Banking Committee (currently Senate Committee on Banking, Housing, and Urban Affairs) chair. In contrast to the additive effect of the Senate Banking Committee chair's ideology, which was hypothesized and tested by Grier, this paper postulates the influence of the committee chair's ideology in an interactive term with macroeconomic conditions.

As Figure 2 shows, the Senate Banking Committee chair's ideology is likely to have an interactive influence, rather than a simple additive effect, on monetary policy. The chair's ideology could condition the Fed responsiveness to macroeconomic conditions, such as unemployment and inflation rates. Conservative chairs, who are representing the higher income constituency, are likely to be more concerned with inflation than with unemployment. In contrast, recession and unemployment have had a greater impact on the lower-middle class, primarily liberal chairs' constituency. Therefore, conservative chairs may be averse to inflation and strive to influence the Fed for anti-inflationary policy. On the other hand, liberal chairs may prefer an expansionist policy.

In contrast to the president, the Committee chair does not represent the interests of the nation. Unlike a conservative president, therefore,

a conservative chair's preference for a contractionary policy should not be modified even when unemployment is relatively higher. Conservative chairs are less likely to alleviate their own ideological preferences for improving the employment condition of the nation. When the unemployment rate is higher, a liberal chair is likely to influence the Fed to allow monetary ease in order to protect the interest of his constituents. On the other hand, a liberal chair's preference for an expansionist policy should not be altered even when the inflation rate is higher. A liberal chair is likely to pursue his ideological preference without being constrained from the high inflation rate, a national problem. When inflation is severe, a conservative chair is likely to influence the Fed toward a contractionary policy in order to protect the interest of his constituents. Thus, if the ideological disposition of the Senate Banking Committee chair is influential on the Fed, then overhead democracy will be confirmed. Therefore, we test the following hypotheses in our time-series model.

Hypothesis 1. Conservative presidents may influence the Fed for a contractionary policy. When the unemployment is severe, however, they may modify this influence.

Hypothesis 2. Liberal presidents may influence the Fed for an expansionist policy. When the inflation is higher, however, they may modify this influence.

Hypothesis 3. Conservative Senate Banking Committee chairs may influence the Fed for a contractionary policy. When the inflation is higher, especially, they may strengthen this influence.

Hypothesis 4. Liberal Senate Banking Committee chairs may influence the Fed for an expansionist policy. When the unemployment is severe, they may strengthen this influence.

Data and Measurement

Dependent variable

In this study the percent change in the Federal Funds Rate (FFR) from the previous quarter is the dependent variable in order to examine the activities of the Federal Reserve. The FFR is technically a market-oriented interest rate on overnight and short-term loans among financial institutions. Nonetheless, the FOMC attempts to influence the Federal Funds Rate by altering the supply of and demand for reserves through open market operations. When the Fed targets changes in the Federal Funds Rate, in effect, it is targeting changes in all the market interest rates, such as prime interest and mortgage rates. Accordingly, most scholars agree that the Federal Funds Rate is a suitable indicator

of the comprehensive policy actions by the Federal Reserve (Frendreis and Tatalovich 1994; Havrilesky 1995, Morris 2000).

As explained above, the open market operations raise or lower an *ongoing level* of the FFR. Therefore, changes in the FFR are incremental. We examined the autocorrelation function of the quarterly average values of the FFR, and it revealed substantial serial correlation. These values were regressed in the Dickey-Fuller unit root test, and the test failed to reject the null hypothesis, hence indicating that the FFR is nonstationary. To resolve this problem, the activities of the Federal Reserve at a given quarter t are measured by the percent change of the Federal Funds Rate from $t-1$ to t. In our model, therefore, we examine quarterly percent change of the FFR from 1954 to 2000.

Independent variables

As for independent variables, the ideologies of presidents and the Senate Banking Committee chairs are measured by the ADA score. The Americans for Democratic Action was founded in 1947 and is a non-profit political organization advocating liberal and democratic values. Each year, the ADA's Legislative Committee selects 20 votes it considers the most important during that session (Americans for Democratic Action, http://www.adaction.org/voting.htm). Each legislator receives 5 points for each point if he or she voted with ADA, and receives 0 points if he or she voted against ADA on a vote. Thus, the total possible score ranges from 0 to 100. The president's score is based upon the percentage of the twenty annual votes on which he takes a liberal position and also ranges from 0 to 100.

Macroeconomic conditions are measured by unemployment and price stability. For the unemployment rate, we use the percentage of the civilian labor force (16 years or older) without job, which is reported by the Bureau of Labor Statistics data (http://146.142.4.24/cgi-bin/surveymost). Persons are classified as unemployed if they do not have a job, have actively looked for work in the prior 4 weeks, and are currently available for work. All members of the civilian population are eligible for inclusion in the labor force, and those 16 and over who have a job or are actively looking for one are so classified. All others – those who have no job and are not looking for one – are counted as 'not in the labor force.'

In this study, the percent change of the unemployment rate from the previous quarter is measured as the employment condition. However, such short-run dynamics may not be exceptionally robust. The change in the FFR may be influenced by not only a change in values of the unemployment rate, but also by the 'levels' of their values. Even when

unemployment is rising, for instance, the Fed may ease monetary policy only moderately if the overall level of unemployment is not severe. Thus we examine both the quarterly average value of the unemployment rate. If the Consumer Price Index is jumping but the level of the FFR is already high, for instance, the Fed would likely tighten monetary policy only slightly because of a concern for a possible negative effect on the economy. Thus, our empirical model includes the values of the FFR in the previous quarter.

The inflation rate is measured by the percent change in the Consumer Price Index (CPI) from the previous period. The U.S. Department of Lavor (ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt) reports the Consumer Price Index, which is the value of a basket of goods. Nonetheless, the Consumer Price Index has a steady, inflationary trend. Consequently, the percent change in, rather than the level of, the CPI is likely to be a better measurement for economic condition.

Models and Equations

With the variables explained above, equations are estimated for the dependent variable Y, measuring the activity of the Federal Reserve in percent change in the Federal Funds Rate, to test the hypotheses. The first model examines the influences of the presidential ideology. The equation for the model is as follows:

$$\begin{aligned} Y(\Delta \textit{Federal Funds Rate} = {} & \alpha + \beta 1^{*}(\textit{FFR } t-1) + \beta 2^{*}(\textit{Xue } t-1) \\ & + \beta 3^{*}(\textit{Xpresid})^{*}(\textit{Xue } t-1) + \beta 4^{*}(\Delta \textit{Xue } t) \\ & + \beta 5(\Delta \textit{Xue } t)^{*}(\textit{Xpresid}) + \beta 6^{*}(\Delta \textit{Xcpi } t) \\ & + \beta 7^{*}(\Delta \textit{Xcpi } t)^{*}(\textit{Xpresid}) + \beta 8^{*}(\textit{Xpresid}) + e \end{aligned} \quad (1)$$

Where Δ is the quarterly percent change, *a* is a constant, Xue is the unemployment rate, Xcpi is the Consumer Price Index, and Xpresid is the ideology of the president. Also, the equation for the model of the influence of the ideology of the Senate Banking Committee chair is as follows:

$$\begin{aligned} Y(\Delta \textit{Federal Funds Rate}) = {} & \alpha + \beta 1^{*}(\textit{FFR } t-1) + \beta 2^{*}(\textit{Xue } t-1) \\ & + \beta 3^{*}(\textit{Xchid})^{*}(\textit{Xue } t-1) + \beta 4^{*}(\Delta \textit{Xue } t) \\ & + \beta 5(\Delta \textit{Xue } t)\,8(\textit{Xchid}) + \beta 6^{*}(\Delta \textit{Xcpi } t) \\ & + \beta 7^{*}(\Delta \textit{Xcpi } t)^{*}(\textit{Xchid}) + \beta 8^{*}(\textit{Xchid}) + e \end{aligned} \quad (2)$$

Where Xchild is the ideology of the Senate Banking Committee chair

TABLE 1: *Interactive Influences of Presidential Ideology with Macroeconomic Conditions on the Quarterly Percent Change in the Federal Funds Rate*

	Coefficient	SE	t
Constant	22.33	6.91	3.23**
FFR Previous Quarter	−.31	.40	−.78
Presidential Ideology	−.31	.12	−2.69**
Unemployment Rate Previous Quarter	−3.54	1.05	−3.36**
Presidential Ideology × UR Previous Quarter	.05	.20	2.70**
Unemployment Rate Quarterly Percent Change	−1.40	.31	−4.55***
Presidential Ideology × UR Quarterly Change	−.00	.01	−.05
CPI Quarterly Percent Change	3.57	1.97	1.81'
Presidential Ideology × CPI Quarterly Change	.01	.03	.22

N 182 'p&<.10 *p<.05 **p<.01 ***p<.001
Adjusted R^2 .36
F 13.53***

and others remain the same. After the models of the influences of the president and Committee chair, we combine these independent variables into a mixed model. The equation is as follows:

$$\begin{aligned} Y(\Delta \textit{Federal Funds Rate}) = {} & \alpha + \beta 1^{*}(\textit{FFR } t-1) + \beta 2^{*}(\textit{Xue } t-1) \\ & + \beta 3^{*}(\textit{Xpresid})^{*}(\textit{Xue } t-1) + \beta 4^{*}(\Delta \textit{Xue } t) \\ & + \beta 5(\Delta \textit{Xue } t)^{*}(\textit{Xpresid}) + \beta 6^{*}(\Delta \textit{Xcpi } t) \\ & + \beta 7^{*}(\Delta \textit{Xcpi } t)^{*}(\textit{Xpresid}) + \beta 8^{*}(\textit{Xpresid}) \\ & + \beta 9^{*}(\textit{Xchid})^{*}(\textit{Xue } t-1) + \beta 10(\Delta \textit{Xue } t)^{*}(\textit{Xchid}) \\ & + \beta 11^{*}(\Delta \textit{Xcpi } t)^{*}(\textit{Xchid}) + \beta 12^{*}(\textit{Xchid}) + e \end{aligned} \quad (3)$$

Results

Table 1 shows the results of the model of the influence of presidential ideology on the changes in the Federal Funds Rate. The presidential ideology variable is significant with a negative coefficient. As explained earlier, the presidential ideology is measured by the 100 scale ADA score in which a high score indicates more liberal preferences. Thus, this finding suggests that the more liberal the president, the lower is the FFR. This finding suggests overhead democracy influence from the president on Fed decision making. The unemployment rate in the previous quarter is also significant with a negative coefficient. This suggests that when the 'level' of the unemployment rate is higher, the FFR is more likely to be lowered. Thus, bureaucratic discretion exists as well.

The interactive variable of presidential ideology and the unemploy-

ment rate previous quarter is significant. Its positive coefficient suggests that when the unemployment rate is higher, the FFR is likely to stay lower under conservative presidents (who have lower ADA score) than under liberal presidents. As we hypothesized, conservative presidents generally prefer a restrictive monetary policy. When the unemployment condition is severe, however, they are likely to modify their contractionary preference for broader national interests, perhaps to avoid blame for poor economic performance.

The unemployment rate (quarterly percent change) is significant with a negative coefficient. This suggests that the FFR is likely to be lowered when the unemployment rate rises. Nonetheless, the interactive variable of presidential ideology and the unemployed rate quarterly change is not significant. Therefore, although the presidents are concerned with the level of the unemployment rate, they are less likely to be responsive to the 'change' in the unemployment rate. The CPI quarterly percent change is moderately significant with a positive coefficient. This suggests that monetary policy becomes contractionary with a higher FFR when the prices are rising. Other variables are not significant as shown in table 1.

Next, Table 2 shows the results of the model from the influence of the ideology of the Senate Banking Committee chair on the changes in the Federal Funds Rate. The Federal Funds Rate in the previous quarter is significant. Its negative coefficient suggests that when the FFR is low, the Fed is less likely to lower the FFR, and that when the FFR is high, the FFR is less likely to be increased. The Senate Banking Committee chair's ideology is moderately significant. Contrary to our hypothesis, however, its positive coefficient suggests that the FFR is likely to be lowered under the conservative chairs, rather than liberal chairs. In this sense, presidents' and the Senate Banking Committee chairs' ideologies work in opposite directions.

Also evident in Table 2, the unemployment rate quarterly percent change is significant with a negative coefficient. This suggests that when the unemployment rate is rising, the FFR is likely to be lowered. Also, the interactive variable of the Senate Banking Committee chair's ideology and the unemployment rate quarterly percent change is significant. As we hypothesized, the negative coefficient suggests that when the unemployment rate is rising, the FFR is more likely to be lowered under liberal chairs than conservative chairs. This finding suggests overhead democracy influence from the Committee chair. The CPI quarterly percent change is significant with a positive coefficient. This suggests that when prices are rising, the FFR is more likely to be raised. Other variables are not significant.

Finally, Table 3 shows the results of the mixed (or combined) model

TABLE 2: *Interactive Influences of Senate Banking Committee Chair's Ideology with Macroeconomic Conditions on the Quarterly Percent Change in the Federal Funds Rate*

	Coefficient	SE	t
Constant	1.98	5.07	.59
FFR Previous Quarter	−.90	.40	−2.26*
Chair's Ideology	.23	.13	1.74*
Unemployment Rate Previous Quarter	−.26	.92	−.28
Chair's Ideology × UR Previous Quarter	−.04	.02	1.55
Unemployment Rate Quarterly Percent Change	−1.01	.24	−4.21***
Chair's Ideology × UR Quarterly Change	−.01	.01	1.82'
CPI Quarterly Percent Change	6.67	1.91	3.50**
Chair's Ideology × CPI Quarterly Change	−.03	.04	−.83
N 182	'p&<.10 *p<.05 **p<.01 ***p<.001		
Adjusted R^2 .35			
F 13.47***			

of the influence of the ideology of the president and the Senate Banking Committee chair on the changes in the Federal Funds Rate. In the model, none of the Senate Banking Committee chair's variables are significant, while some of the presidential variables and macroeconomic variables are still significant. The unemployment rate in the previous quarter is moderately significant with a negative coefficient. This suggests that when the level of the unemployment rate is higher, the FFR is more likely to be lowered. The quarterly percent change in the unemployment rate is also significant with a negative coefficient. This suggests that when the unemployment rate is rising, the FFR is likely to be lowered. The CPI quarterly percent change is significant and its positive coefficient suggests that when prices are rising, the FFR is likely to be raised.

As for the presidential variables, presidential ideology is highly significant. The negative coefficient continued to suggest that the FFR is more likely to be lowered under liberal presidents and to be raised under conservative presidents. As the positive coefficient of the interactive variable of the presidential ideology and the unemployment rate in the previous quarter suggests, nonetheless, conservative presidents' contractionary preferences are modified when the unemployment rate is higher. Other presidential variables and all the variables of the Senate Banking Committee chair are insignificant.[3]

Conclusion

We examined the influences of the macroeconomic conditions and the ideologies of political principals, such as the president and the Senate

TABLE 3: *Interactive Influences of Ideology of the President and Senate Banking Committee Chair with Macroeconomic Conditions on the Quarterly Percent Change in the Federal Funds Rate*

	Coefficient	SE	t
Constant	16.11	8.47	1.90'
Macroeconomic Variables			
FFR Previous Quarter	−.64	.44	−1.48
Unemployment Rate Previous Quarter	−2.33	1.29	−1.82'
Unemployment Rate Quarterly Percent Change	−.98	.39	−2.50*
CPI Quarterly Percent Change	5.49	2.21	2.49*
Presidential Variables			
Presidential Ideology	−.34	.13	−2.66**
Presidential Ideology × UR Previous Quarter	.06	.02	2.67**
Presidential Ideology × UR Quarterly Change	.00	.01	−.49
Presidential Ideology × CPI Quarterly Change	.03	.03	.77
Committee Chair Variables			
Chair's Ideology	.22	.14	1.59
Chair's Ideology × UR Previous Quarter	−.03	.02	−1.42
Chair's Ideology × UR Quarterly Change	−.01	.01	−1.48
Chair's Ideology × CPI Quarterly Change	−.06	.04	−1.41
N 182	'p&<.10 *p<.05 **p<.01 ***p<.001		
Adjusted R^2 .37			
F 9.87***			

Banking Committee chair, on monetary policy by the Federal Reserve. Ideology for both actors was initially significant, and, thus, we find support for the overhead democracy theory. Real political influences are present and the ideology of the president is especially influential. Although its impact (the size of the coefficients) is modest, the significance of the influences (the strength of relationships) of presidential ideology, both the compositional term and the interactive term with the economy, was rather larger than the significance of the economic factors.

This finding is particularly important since in the combined model the influence of the ideology of the Senate Banking Committee chair loses its significance. Thus, in the final analysis, only presidential ideology and economic conditions matter a great deal in Fed decisionmaking. While both variables initially were important, the congressional variables are wiped out in the final model. As Scholz and Wei (1986) find for another independent agency, OSHA, the president emerges as superior in our models as well, suggesting that presidents are trumping any potential influences from the Senate and continuing to pursue elements compatible with their own preferences.

We recognize that this research is not the last word on determinants of decision making by the Federal Reserve and suggest several directions for future research. Although we cannot eliminate the influence

of economic variables, we recognize that they can mitigate the influences of political factors on efforts to examine decisions by government agencies. However, the Fed is probably the most independent of all federal agencies and because of the nature of its influence on monetary policy, economic conditions will inevitably be important in its decisions. Still, we are encouraged to find some support for overhead democracy and will not give up trying to find other political influences. If the Fed is influenced by political factors, then virtually all other agencies should be as well. In future research we seek to tap the influence of other political actors, including interest groups, and encourage other research along these lines.

NOTES

1. We are not necessarily contending that Fed monetary policy is always redistributive in design, but it is certainly more than distributive in Lowi's terminology and, as such, should be more likely be influenced by presidents than Congress.
2. We looked at both the number of Governors appointed by the sitting president as well as the number from the president's party as indicators of Fed ideology but found no relationship either with the presidents' ideology or the FFR.
3. In order to test for structural stability, we conducted the Chow test for the following two time periods: 1953–1979 and 1980–2000. Since the F value of 1.62 is below the critical F of 1.78 at the 5% level, there is no significant structural change between the two periods.

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