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Federal Reserve Independence: A Centennial Review

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Abstract: Implicit in monetary models and policy prescriptions is the assumption that the Fed is independent of political and bureaucratic influence. We challenge this assumption. We consider three channels through which the independence of the Fed has been compromised over its 100-year history; debt accommodation, political influence, and the bureaucratic structure of the Fed. Future research needs to address how these separate influences have become operational, the mechanism of their operation, and their interaction. We argue that contextualized anecdotal histories are necessary to corroborate the existing empirical studies and to inform future studies.

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"...If Government wanted money, it should be obliged to raise it in the legitimate way; by taxing the people; by the issue and sale of exchequer bills, by funded loans; or by borrowing from any of the numerous banks which might exist in the country; but in no case should it be allowed to borrow from those, who have the power of creating money." — David Ricardo, 1824 [2004], 283

1. Introduction

Robust political economy sets out to incorporate the concerns for the epistemic and motivational limitations of humankind into political economy expositions (Boettke and Lesson 2004). The dearth of attention given to these concerns in prevailing monetary models and policy prescriptions suggest that the economics profession largely holds the Fed to be independent and thus assumes the role of Adam Smith's 'man of system' as it sets out to find the technically optimal monetary policy course (Bernanke 2010; Smith, 1759[1976], VI.ii.2.17; Toma 1991, 158). Rather than entering as fundamental parameters, considerations for robust political economy often appear only as afterthoughts in monetary expositions. This professional stance is likely due to both the independent design of the Fed and the economic profession's role in managing it.

Yet, the performance record of the Fed over its century existence suggests that even in comparison to the flawed National Banking system, the Fed has failed to achieve macroeconomic stability (Selgin, Lastrapes, and White 2012).[3] The economics profession has either been unable to properly specify policy models for the Fed or it has been unable to remain independent of political influence. While we hold that there exist insurmountable epistemic complexities in crafting optimal monetary policy–and that these complexities are likely to be the underlying reason for the ensuing motivational problems–the Fed's unwillingness to adhere to the accepted monetary policy rule leading up to the financial crisis demonstrates even a modern failure to remain independent of influence (Taylor 2009).

To better understand the channels through which pressures are exerted on the Fed, as well as the extent of these influences, we survey the existing theoretical and empirical evidence, building on previous surveys (Caporale and Grier 1998; Williams 1990). We separate the influences on the Fed into three distinct categories; deficit accommodation, political influence, and the influence from the bureaucratic structure of the Fed itself. A proper accounting of these influences suggests that the concerns of political economy need to be incorporated into monetary structures, models, and prescriptions.

2. Debt Accommodation

Buchanan and Wagner (1977[2000], Ch. 8) famously argued that inflation is caused by the expansion of the money supply in order to accommodate budget deficits. Blinder (2000, 1429) wrote from his experience at the Fed:

> ...outsized fiscal deficits and/or large accumulations of public debt (relative to GDP) put upward pressure on interest rates, which may induce a more accommodative policy from the central bank.

The entanglement of politics and public debt is not a new problem. Adam Smith warned about the 'juggling tricks' that nations would engage in cycling through debt, deficits, and debasement (Boettke and Beaulier 2009). Rather than reforming their unsustainable deficit spending, politicians would prefer to turn to inflation (Smith 1776[1976], V.iii.61). Alan Greenspan (2007, 35) recalls that, in the classroom, Arthur Burns summarized inflation succinctly as "Excess government spending..."

Using a simple analysis of data from 1946-1974, Buchanan and Wagner find that the Fed has accommodated budget deficits by increasing its holding of government securities, concluding that "The 'facts' suggest that the actions of the Federal Reserve Board have not been independent of the financing needs of the federal government" (1977[2000], 120). This fits with the well-established empirical finding that effective fiscal policy requires accommodative monetary policy (Blinder 1982; Canzoneri, Cumby, and Diba 2011; Fair 1978; Freedman et al. 2010).

However, early studies examining the effect of budget deficits on monetary growth or inflation, were

3 For a critical comment see Miron (2012).

mixed. Hamburger and Zwick (1981), Niskanen (1978), and Levy (1981) found a relationship, while King and Plosser (1985), Faust and Irons (1999), Dwyer (1985), and Barro (1978) did not. McMillin and Beard (1982) and McMillin (1981) found the evidence inconclusive. Bradley (1985, 411) criticized these earlier studies:

> …the reduced-form money-growth equation cannot determine if the money supply response to an increase in federal debt comes from the private sector or from the monetary authority. Money growth which is generated from the accommodation of increased money demand has a different set of consequences than money growth which is initiated by the monetary authority.

Bradley (1985, 429) avoided this complication by using direct data from the Fed's policy instruments rather than the money supply. He found evidence that deficits do lead to expansionary monetary policy. Blinder (1983), using budget deficits and reserves from 1961-1981, also found a relationship.

3. Political Influence

Political influence, outside the context of deficit accommodation, can also be exerted on the Fed in order to boost reelection chances or to provide accommodation for specific fiscal policy initiatives. This influence can exert itself through both the executive and legislative branches.

3.1 Executive Branch Influence

Since the Banking Act of 1935, seven of the twelve members of the Board have been appointed by the President to serve 14 year terms, though it is customary for Board members to retire before they serve a full term (Morris 2002, Ch. 5). Since 1977, the President also selects two members of the Board to be the Chairman and Vice Chairman for four years. Starting in 2010, the President also appoints a Vice Chairman for Supervision.

These appointments are more than just ceremonial (Krause 1996; Maisel 1973, Ch. 6). The Chairman represents the "public face" of the Fed and holds tremendous power over the discussions of the FOMC (Silber 2012, 150). In addition, the Chairman holds the final appointment power over all the appointments within the Fed and holds the agenda-setting power (Havrilesky and Katz 1992, 112; Meade and Sheets 2005, 676; Silber 2012, 150). A strategically appointed Vice Chairman can also have an effect on monetary policy by ensuring the administration a staunch advocate on the FOMC (Havrilesky, 1993). Similarly, appointees can be relied on to provide information on the future course of policy.[4] Presidents can also exert significant pressure to resign on unaccommodating board members (Hyman 1976, 299; Kettl 1986, 75; Meltzer 2009a, 135).

Several studies find that appointment power has been used to influence monetary policy (Auerbach 1985; Chappell, Havrilesky, and McGregor 1993; Hakes 1990; Havrilesky 1995a, Chapter 9; Krause 1994; Maisel 1973). Havrilesky and Gildea (1991 & 1992), find that from 1951-1987 presidents have tended to appoint Board members who voted in their favor early on in their administrations, but as elections approached presidents tended to appoint Board members who appeased special interest groups.

There is some dissent. Wallace and Warner (1984) argue that there isn't substantial evidence to declare if there is influence on monetary policy or not looking at the Johnson, Nixon, and Carter administrations. Caporale and Grier (2005a, 87) find that changes in presidential administrations do not result in large changes in monetary policy. Caporale and Grier (1998, 418) don't find evidence from 1961-1996 to support the power of appointment, instead finding that Democratic presidents influence policy even if the Chairman was appointed by a Republican. Over the same range, they also find that Fed insiders provided significantly tighter policy. Woolley (1985, 116) argues that appointment power is important, but has limits.

Governors appointed by Democratic administrations tend to have records of voting for monetary looseness while Governors appointed by Republican administrations tend to vote for tighter monetary policy, fitting with established stereotypes (Harvilesky 1987; Hibbs 1977 &1987; Keech 1995; Puckett 1984; Woolley 1988).[5] Potts and Luckett (1978) found that

4 Governor James Vardaman, appointed by President Truman, did this throughout the Truman administration (Meltzer 2009a, 88).

5 While the parties do have these stereotypes, each

presidential administrations influenced the ordering of the Fed's priorities in the Fed's Annual Report. Chappell, McGregor, and Vermilyea (2005), using evidence from the voting records, memoranda, and the transcripts of the FOMC during the tenures of Burns and Greenspan, find that partisan influences played an important role in the decisions of FOMC members. In addition, Fed employees have also disclosed that the political influence on monetary policy was frequently discussed off-the-record during the Volcker tenure (Havrileksy 1995a, 35). Weintraub (1978), using evidence from 1953-1977, finds that Fed policy shifted during administration transitions.

Other studies argue that while there is a strong executive branch influence on monetary policy, the pressure does not appear to operate through the appointment process (Caporale and Grier 1998 & 2005b; Grier and Neiman 1987; Beck 1982 & 1984). Thus, there likely are informal channels of influence that the executive branch has utilized to exert influence. For example, while Chappell, Havrilesky, and McGregor (1993) find that appointment power is the primary way a president influences policy, they also find that the current president can influence Board members appointed by previous administrations.

One of these informal channels is through presidential meetings with the Chairman. Weekly meetings between the Chairman and administration officials, that have been a tradition since 1936, are a likely source of influence (Axilrod 2011, 211; Kettl 1986, 57; Reagan 1961, 69; Rubin and Weisberg 2004, 194). While nominally these meetings are to coordinate policy efforts, these coordination efforts tend to impede the operational independence of the Fed (Meltzer 2009a, 88). Particularly since the Fed was explicitly set up independently of the Treasury in order to avoid being pressured into financing profligate government spending (Timberlake 1993, 316 & Ch. 13).

In addition to meetings, administrations can make their desired monetary policy course known through media releases, bringing public pressure to bear on the Fed. Havrilesky (1988) creates an index of monetary policy signals from presidential administrations to the Fed using articles in the *Wall Street Journal* from 1979-1984 that contained administration officials urging Fed officials to change policy. Havrilesky finds that these signals have an impact on the money supply, though a similar index for congressional influence on the Fed did not. Froyen and Waud (2002), using articles from the *Wall Street Journal* from 1965-1994, find significant effects of administrative signaling to the Fed over the period, but only during the Burns and Volcker tenures for the chairmanship sub-periods.[6]

Executive branch influence on monetary policy is likely to be strongest prior to a presidential election to aid in reelection bids. Committee members appointed by presidents from both parties have been found to exhibit changes in voting patterns as elections approached, suggesting an adjustment of Fed policy to promote the electoral success of their respective party (Bach 1971; Grier 1987; Maisel 1973, Ch. 7). Timberlake (1993, 356) finds evidence that Fed activity before and after elections from 1964-1980 suggest that policy went from restrictive to simulative during election years, and then to restrictive again following the election.[7] Williams (1990) finds that from 1953-1984 there was a relationship between dips in presidential approval ratings and monetary growth. Tufte (1978, Ch. 2) finds support from 1948-1976 for the claim that the incumbent president uses monetary policy to aid in their reelection. Luckett and Potts (1980) dispute Tufte's evidence, arguing that after normalizing his data for concomitant economic events, the data can't support or reject Tufte's thesis. Belton and Cebula (1994), using a model they construct to measure the underlying behavior of the Fed, find that from 1973-1984 there is some limited evidence to suggest that presidential administrations do exert some influence on monetary policy. Meiselman (1986) finds some evidence in support of presidential election cycles in election years from 1960-1980, but not in the preceding period from 1948-1956.[8] Grier (1987 & 1989) finds that from 1961-1982 there is a significant correlation between presidential election cycles and monetary growth.[9] Golden and Poterba (1980) argue that the gains in popularity from manipulation of monetary policy are too small to be worth presidential manipulation, but Maloney and Smirlock (1981), using Gallup poll presidential approval ratings from 1957-

administration acts independently, so there are limits to Republican and Democrat dummies in these models (Caporale and Grier 1998, 411).

6 See also Froyen, Havrilesky, and Waud (1997).

7 See also Newton (1983, 112).

8 See Fand (1986) for a comment on Meiselman (1986).

9 Alesina, Cohen, and Roubini (1992) find that Grier (1987 & 1989) holds true until the 1980s, but does not hold true from 1980-1987.

1976, find evidence that incumbent presidents can influence monetary policy to aid reelection bids. Beck (1984) and Maier (2002) argue, however, that there isn't evidence that monetary policy caters to political electoral pressures, though Maier (2002) stresses that discerning between rhetoric and reality in regards to central bank independence makes these measurements difficult.

In a review of political business cycles, Drazen (2000) concludes that "…models based on manipulating the economy via monetary policy are unconvincing both theoretically and empirically…" Drazen crafts a model where monetary formation is separate from the direct control of politicians and finds that monetary authorities can accommodate passively.[10] Several studies have found evidence to support the argument that monetary authorities accommodate fiscally-induced electoral cycles in order to avoid the accusation of being political by allowing swings in the interest rates during election years (Allen 1986; Beck 1987; Drazen 2005; Hellerstein 2007; Laney and Willett 1983; Woolley 1985, Ch. 6).

Beck (1993b, 126) argues that new theories have led to better empirical work and in light of that, that the evidence of presidential influence on Fed policy is conclusive in the affirmative. Havrilesky and Schweitzer (1993) find that FOMC members whose career characteristics reflect a closer connection with the central government tend to cast dissenting votes in favor of monetary easement, and that those with more distant connections tend to cast dissenting votes in favor of monetary tightening. Gildea (1993) finds that FOMC members tend to cast their split-decision votes in the favor of the party of the President who appointed them.

3.2 Legislative Branch Influence

All presidential appointments to the Fed must be approved by the Senate. Waller (1992) finds that this approval power can be significant, especially when the Senate and the White House are controlled by dissenting parties and as elections approach. The Chairman must also report at least twice a year to Congress. Since 1975, this report has included the Fed's monetary supply targets as well as the Fed's explanations for any deviations from previously set monetary supply targets.

Based off his thirty-four years of experience working at the Fed, Axilrod (2011, 11) stated, "The Fed is essentially a creature of the Congress and responsible to that arm of government." Axilrod argues that the lack of strong formal channels of legislative monitoring and control is countered by strong informal channels.

In making the case for greater congressional control of the Fed, Pierce (1978) argues that Congressional means of control over the Fed have not resulted in measurable impacts on monetary policy. However, Grier (1991) found evidence that Congress does in fact exert influence over monetary policy, finding a significant correlation between changes in the leadership of the SBC and monetary base growth. Similarly, Beck (1993a, 140) argues that while the evidence is hardly conclusive, Congress is not a primary determinant of short-run monetary policy. Belton and Cebula (1994) find that from 1973-1984 congress was able to exert influence on money growth, but not on policy outcomes.

With so many committees in the legislative branch directly or indirectly affected by the issues of money and credit, it is difficult to prevent legislators from attempting to meddle with the Fed (Price 1962, 160). Despite the absence of formal monitoring mechanisms, congressional members can monitor the Fed's performance through media outlets, constituent feedback, and congressional testimony, audits, and reports (Clifford 1965, 362).

Committee members can informally mandate time-consuming public hearings for the chairman, making the Fed their economic policy scapegoat so that congress can pursue short-term electorally focused economic policy without being blamed for the subsequent poor economic performance (Grier 1991; Hetzel 1986, 798 & 1993; Kane 1980 & 1982; Maisel 1973, 155). Greenspan (2007, 150) recalled that oftentimes congressional hearings became "…a theater in which I was a prop – the audience was the voters back home." It might be precisely because the Fed is nominally an independent agency that the public does not perceive the relationship between deficits and inflation, and thus don't hold elected officials accountable for monetary mischief (Buchanan and Wagner 1977[2000], 114).

At times, congressional threats against the Fed have included threats of auditing the Fed's expenditures, putting the Secretary of the Treasury back on the Fed Board, threats against the budgetary autonomy of the Fed, threats of shortening the term limits, threats of packing the FOMC, threatening the impeachment of the Chairman and even the entire FOMC, making all FOMC

10 See also Drazen (2001) and Walsh (2000).

voting members politically appointed, the centralization of power on the Board of Governors in DC, reducing the roles of reserve banks, abolition of the FOMC, and even threatening to "…cut the head off the Fed System…" (Clifford 1965, 345; Grier 1991, 206; Harrison 1991, 272; Safire 1975, 492; Havrilesky, Chappell, Gildea, and McGregor 1993, 50; Silber 2012, 203-207; Meltzer 2009a, 227).

Buchanan and Wagner (1977[2000], 122), question whether a monetary authority can be truly independent if legislators can, if pushed, "…modify the effective 'monetary constitution,' by imposing specific regulations or, in the limit, by abolishing the independence of the monetary authority itself." Despite being independent of day-to-day influences from the public, Meltzer (2003, 4) argues that "…the public, acting through its representatives, could insist on structural changes, or, without formally changing structures, demand that the Fed undertake new responsibilities or give up old ones. No institution can be independent of this pressure for change." As Blinder (2010, 125) writes, "Legislators can change that law any day, and in any way, they choose—including abolishing the Fed entirely, which is precisely what Congress did to the First and Second Banks of the United States. Nor is there any question that Congress has both the right and the duty to oversee the Fed's operations, which it does through periodic hearings and in other ways."

Even when the legislative measures were not passed, Meltzer (2009a, 225) argues that they still increase congressional influence by making these measures a constant concern. Havrilesky (1995a) finds that the higher the economy's misery index, the greater the number of legislative bills introduced that threaten to restructure or control the Fed.[11] Havrilesky (1995a) also finds that the expressed opinions of the SBC during the Chairman's biannual hearing had an effect on the funds rate in the following month. Caporale and Grier (1998) find that from 1961-1996 the SBC leadership had a measurable influence on the real interest rate and that monetary growth is higher under Democratic SBC leadership (Grier 1986, 541).

11 Overall congressional challenges to the Fed's structure have demonstrated a very low success rate of succeeding (Havrilesky 1995b, 96), which could be due to either the Fed delivering the desired monetary policy, or, the ineffectiveness of congressional challenges.

4. The Fed as a Bureaucracy

Perhaps one reason the Fed has been so susceptible to exogenous pressures is because of its structure as a bureaucratic entity interested in prestige, budget-maximization, and self-preservation. One of the reasons that the Fed is so responsive to political pressures is because of the genuine uncertainty inherent in the tasks they are assigned (Buchanan and Wagner 1977[2000], 123). When faced with having to make tough and often inaccurate predictions, based upon constantly changing data and circumstances, decision-makers are more wont to respond to these bureaucratic pressures. Kane (1993) argues that it is precisely the bureaucratic self-interest inherent in the Fed that prevents monetary reform. An example of this type of public pressure on the Fed occurred when Arthur Burns was the Chairman in 1971. Burns expressed concern that there was a "…campaign… to write me letters to urge more expansion. I will make good on my promises" (Meltzer 2009b, 795). Burns agreed to undertake "…vigorous but sustainable expansion" in exchange for a promise from Nixon to "…keep them off your back" (Meltzer 2009b, 795).

The structure of the Fed within the economics profession also provides a significant channel of influence on monetary policy. The Fed, being one of the largest U.S. employers of economists–and monetary economists in particular–can hold significant sway over the economics profession (Auerbach 2008, 141; Grim 2009; White 2005). In addition to the employment of economists in officer, economist, statistician, and staff positions, the Fed also gives out hundreds of consultant contracts and visiting scholar positions, and has significant power over tenure and promotion, prestige, and even journal access within the economics profession (Grim 2009). In 1993, the Fed employed around 500 economists, not including several research grants given out to a few hundred more (Auerbach 2008, 142). Friedman (as quoted by Auerbach 2008, 142), in a letter to Auerbach, expressed grave concern over this:

> I cannot disagree with you that having something like 500 economists is extremely unhealthy. As you say, it is not conducive to independent, objective research. You and I know there has been

> censorship of the material published. Equally important, the location of the economists in the Fed has a significant influence on the kind of research they do, biasing that research toward noncontroversial technical papers on method as opposed to substantive papers on policy and results.

Reportedly, the jobs at the Fed are quite lucrative compared to academic jobs, with higher salaries and better journal access, statistical assistance, and research time (Auerbach 2008, 143). Shughart II and Tollison (1983) find a positive relationship between the number of Fed employees and the monetary base, arguing that the money supply is expanded to support the bureaucratic growth of the Fed. Similarly, Toma (1982) argues that the self-financing nature of the Fed, and thus their ability to generate discretionary profits, influences monetary policy. Toma and Toma (1985a) find that Fed Banks that generated negative publicity for the Fed saw a decrease in their total annual budget growth rates.

Auerbach (2008, 143) reports that all Fed publications have to be "…sent to the Board in Washington for editing and approval." Reportedly, Alan Blinder's tenure as the Vice Chairman of the Fed was short-lived because he challenged the views of senior staff (Grim 2009). Even Nobel Laureate Paul Krugman was reportedly uninvited to Fed conferences he had previously attended after he criticized the Fed (Grim 2009). In addition to being able to influence research, the Fed, due to its regulatory power over the banking industry, also discourages criticism of its policies from the banking industry itself (Allison 2012, 34).

Conformity, group-think, and cognitive dissonance have all been found to be problems at the Fed (Eichengreen 2010; Epstein and Carrick-Hagenbarth 2011 & 2012; Marcussen 2006, 189; Mayer 1993; Shiller 2008). White (2005) analyzed the potential influence that the Fed might have on the economics profession:

> …an academic economist who values the option to someday receive an offer from the Fed, either to become a staff economist or a visiting scholar, faces a subtle disincentive to do regime-challenging research. To repeat Fettig's (1993) characterization of Milton Friedman's view: 'if you want to advance in the field of monetary research . . . you would be disinclined to criticize the major employer in the field.' …Fed-sponsored research generally adheres to a high level of scholarship, but it does not follow that institutional bias is absent or that the appropriate level of scrutiny is zero.

Perhaps this is why Friedman (1982, 102) observed, that "With perhaps a few minor exceptions, the system has repeatedly been unable or unwilling to change its methods of operation in order to benefit from its own experience." The economics profession has failed to apply the basic concepts of economics to an institution largely under the economic profession's control and recognize the structure of incentives within the bureaucratic structure of the Fed.

4.2 Special Interest Group Influence

When presidents appoint, with the approval of the Senate, seven of the twelve members of the Board, they are required to appoint "…a fair representation of the financial, agricultural, industrial, and commercial interests, and geographical divisions of the country" (Fed Act Section 10:1). Thus, channels through which the private sector, especially financial institutions, can influence Fed policy also exist. In fact, Rothbard (1984) argues that the establishment of the Fed itself was fashioned by the financial industry as a cartelizing device, similar to how other industries turned to government control for monopolies and cartels created through government oversight (also see Bagus and Howden 2012).

Ostensibly, the selection of the Board, according to a 1935 House Committee on Banking, is meant to create "…not the opinion of a majority of special interests, but rather the well-considered judgment of a body that takes into consideration all phases of the national economic life" (Reagan 1961, 70). This proves to be far more difficult in practice. While the representation of the Board is mandated to represent different geographic interests and industrial interests, at times there have been attempts to change the industries represented (Reagan 1961, 70).

A 1976 staff report for the House Committee on Banking found the Fed to be dominated by big businesses and the banking industry (Reuss 1976). Similarly, a 2011 GAO report found that there were multiple potential conflicts of interests with commercial entities and a lack of transparency in regards to the Fed's financial crisis undertakings.[12] Epstein and Carrick-Hagenbarth (2010 & 2011) find many relationships between financial economists and private-sector financial institutions. Auerbach (2008, 55) details how the Greenspan Fed had issues with employees receiving expensive meals, gifts, and sports tickets, as well as a revolving door between the regulated and the regulators. Calabria (2012) suggests this trend has continued with Obama's appointment of New York investment banker Jerome Powell as Governor in 2012. Allison (2012), Zingales (2012), Sheehan (2010), and Taylor (2009 & 2012) all explain how the actions of the Fed in the wake of the financial crisis were plagued with special interest group pressures.

5. Conclusion

The influence on the Fed through these separate channels must enter as fundamental parameters, not afterthoughts, into monetary models for the policy prescriptions that follow to be relevant. As measured by the extent to which our monetary policy theories (*and theorists!*) are directly employed to conduct monetary policy, relevancy is, in fact, the purpose behind our monetary expositions. As Caporale and Grier (1998) conclude, the "…results are too strong to be swept aside…" Even "…the very appearance of political accommodation may threaten the viability of the Fed as a central banker" (Munger and Roberts 1993, 89). The ostensible autonomy of the Fed has likely been cultivated by precisely the groups capable of exerting influence on its policy (Beck 1993a; Havrilesky 1991b, 65; Meltzer 1982).

Yet, we are also forced to admit that shortcomings in the empirical studies on Fed independence do exist. While we believe the progression of the literature in measuring these separate influences has resulted in more refined and better informed empirical studies, the lack of more comprehensive empirical studies suggest that empirical complexities abound. Studies that fail to account for other areas of influence being exerted on the Fed, and the way that they interact, fall disconcertingly short of capturing the full extent of the pressures being exerted on the Fed. It is likely that pressures from each of these separate channels have influenced Fed policy. It is also likely that the type and magnitude of this influence has varied across time in different political and economic circumstances, making it extremely difficult to craft a complete model of influence on the Fed. For example, a key piece of a president's platform that may require accommodation outside of the electoral cycle may bias electoral cycle studies. Other economic and social problems may detract politicians at varying times and to varying extents away from the concerns of monetary policy. In addition, the very models and tools that the Fed employs to carry out its desired policies–however imbued–change over time, further complicating empirical studies.

Historical context is necessary for understanding when these separate influences were operational, the mechanism of their operation, and their effects and interaction with each other. Anecdotal work would corroborate the existing empirical studies and perhaps convince the economics profession–despite its deeply vested interest in maintaining the current monetary structures– to apply the basic concepts of robust political economy to our monetary expositions.

12 http://www.sanders.senate.gov/imo/media/doc/d1218%20(2).pdf

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