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October 5, 2016

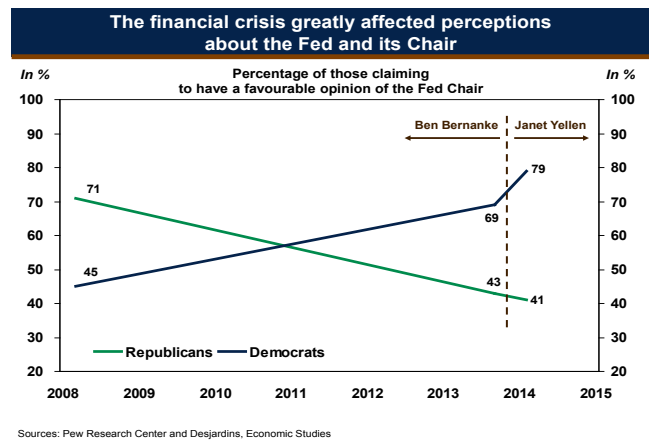
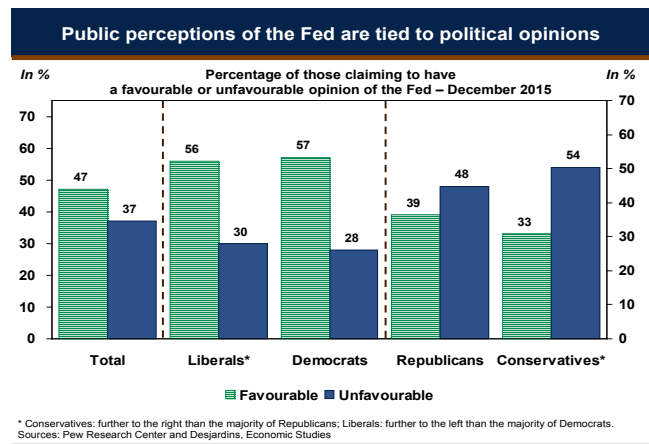


UNITED STATES

The Federal Reserve and the presidential elections

The Federal Reserve (Fed) has always endeavoured to set aside all partisan political considerations when making its monetary policy decisions. However, it has sometimes received criticism for its actions, which are frequently perceived as promoting the political status quo. Thus, it is never completely impervious to partisan debates. It was even dropped into the centre of the current presidential campaign when the Republican candidate, Donald Trump, openly criticized it during the first televised debate, held on September 26. He declared: “We have a Fed that is doing political things—this Janet Yellen of the Fed—by keeping the interest rates at this level,” implying that the current monetary policy is mainly attempting to ensure a good end of term for President Obama while promoting the election of the Democratic candidate, Hillary Clinton.

The perception of the Fed appears to depend to a great degree on political allegiances. According to a survey conducted by the Pew Research Center in December 2015, 48% of respondents who claimed to be Republicans had an unfavourable opinion of the Fed. For those declaring themselves as more conservative, that ratio rose to 54%. Among Democrats, it was 28%. This division was very different before the financial crisis. In March 2008, Republicans generally had a positive view of Ben Bernanke (appointed by George W. Bush), while unfavourable opinions were more common among Democrats. The crisis, the rescue plan for the banks that was put in place during the last months of the Bush administration, the Fed’s unorthodox monetary policy and the mistrust of federal institutions on the part of Republican sympathizers after the election of Barack Obama were the factors that triggered this drastic change of opinion. Since then, the Fed has found itself in the crosshairs of Republican politicians, and Donald Trump’s accusation against the Fed Chair is not the first criticism to be made by that party. In 2011, the Governor of Texas,



Rick Perry, then a candidate in the Republican primaries, accused Fed Chair Ben Bernanke of treason. Ron Paul, another politician from Texas, waged several campaigns against the Fed. The institution also sustained attacks from Democratic politicians, such as Bernie Sanders and Elisabeth Warren, who mainly criticized its supervision of financial institutions.

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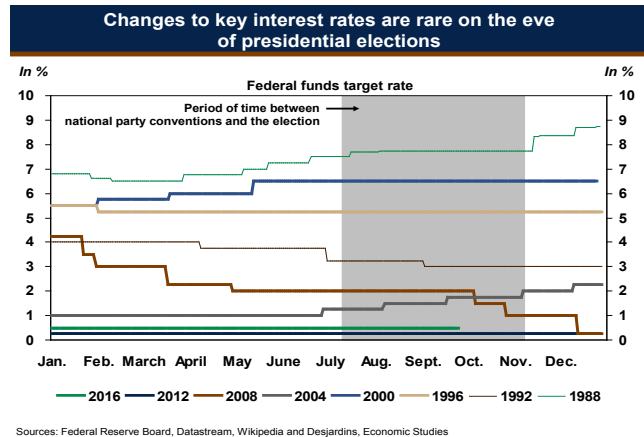
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Does the Fed really act in partisan fashion? On one hand, the Chair of the Fed and the members of the executive committee are chosen by the White House (and confirmed by the Senate); therefore, an implicit bias is possible. For example, before being appointed Chair of the Fed in 2006, Ben Bernanke served one year as Chair of President Bush’s Council of Economic Advisers. Janet Yellen held the same position under Bill Clinton between 1997 and 1999. However, the types of people who are appointed to the Fed, generally drawn from the realm of academia, do not project a very partisan image, although Lael Brainard, one of the governors of the Fed, was recently criticized for making a personal donation to Hillary Clinton’s presidential campaign.

On the other hand, there is no sign of key interest rate trends being ordered specifically to benefit the administration in place. In fact, if the Fed can be accused of anything, it is of being very cautious during election campaigns. On a few occasions, transcripts of Fed meetings (made available five years after the fact) reveal a Fed that is careful to avoid rocking the boat, given that financial markets are likely to be more volatile during the lead-up to elections, and that the confidence of economic players is likely to be more fragile, depending on surveys or results.

In order not to exacerbate tensions in the markets, the Fed therefore tends to exercise discretion at the meeting prior to the election, and avoid confounding expectations. It generally continues whatever movement is already underway, be it the status quo or an upward or downward trend for interest rates. In 2004, it continued the gradual raising of rates that had been started during the summer. It also adjusts to what the economy needs, such as rate cuts and other programs that were adopted in the fall of 2008, which was an exceptional case. In 1992, the Fed was thinking about lowering interest rates at the October 6 meeting, which preceded the election of November 3, but the officers chose instead to avoid attracting partisan criticism, and to bide their time.

Implications: In the current circumstances, a rate hike by the Fed at its meeting of November 2, six days before the election, would seem to be a bold move, even though some regional Fed presidents are already arguing in favour of it. So far, the futures markets have almost ruled out that possibility: as of October 5, the probability of a rate hike on November 2 was 21%, compared with 60% for December. Janet Yellen and her colleagues are more likely to wait for the December meeting to start tightening monetary policy once more... if the results of the November 8 election do not generate too many shock waves.



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