Partisan Fed*

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Abstract

I show that political alignment between Federal Open Market Committee (FOMC) members and the incumbent U.S. President systematically influences monetary policy. I construct two novel, individual-level measures of political alignment for each member of the FOMC, based on their political campaign contributions and appointments to public roles. Using a Difference-in-Differences design around four presidential party transitions between 1992 and 2019, I find that a individual-level positive shift in political alignment with the sitting U.S. President leads FOMC members toward more expansionary policy preferences and more optimistic macroeconomic forecasts (over-forecasting GDP and under-forecasting inflation). The results also hold when examining historical FOMC votes starting from 1936. At the committee level, a one-point increase in political alignment within the FOMC lowers the federal funds rate by approximately 25 basis points relative to the Federal Reserve staff's benchmark recommendation. These politically-driven rate decisions generate a partisan business cycle: periods of political alignment between the Fed and the executive lead to more frequent interest rate cuts, stimulating short-term gains in real gdp, employment, and stock market, but contributing to higher inflation in the long run. Conversely, during periods of political misalignment the FOMC raises interest rates above the apolitical benchmark, resulting in short-run output contractions, but controlling long-run inflation.

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1 Introduction

Central bank political independence is widely recognized as a cornerstone of modern economic institutions, achieving low and stable inflation, without adverse effects on real economic outcomes (Alesina and Summers, 1993). Recent empirical work documents that external pressures from the U.S. President can affect Fed decisions, suggesting the Fed may not be fully independent. (Drechsel, 2024, Bianchi, Gómez-Cram, Kind, and Kung, 2023) In this study, I propose a novel channel through which politics may influence monetary policy, showing that political alignment between Federal Open Market Committee (FOMC) members and the sitting U.S. President systematically affects interest rate decisions.[1]

I construct new granular data to characterize the political alignment of FOMC members, using their political campaign contributions and professional backgrounds. To analyze their individual behavior, I apply large language models to FOMC meeting transcripts and combine it with a novel dataset of members' individual economic forecasts. I show that policymakers take their political alignment with the incumbent U.S. President into account when setting interest rates, resulting in systematic political bias in monetary policy. When central bankers are politically aligned with the administration, they cut interest rates more relative to an apolitical counterfactual. This results in short-run gains—boosting real GDP, employment, and stock market performance—but comes at the expense of higher long-run inflation. Conversely, when the executive and the FOMC are misaligned, the central bank adopts a more contractionary stance, which leads to short-run losses but keeps long-run inflation lower. These politically induced cuts and raises of interest rates, determined by political alignment of the Committee, results in a political business cycle.

To identify the effect of political alignment on monetary policy decisions, I first develop two independent measures of political affiliation for each FOMC member from 1992 to 2019, capturing two distinct dimensions of political leaning. The first measure relies on electoral campaign contributions made by FOMC members before joining the Fed to political representatives or candidates from either the Republican or Democratic parties. In my sample, 65% of the members donated at least once to one of the two parties, with a median cumulated contribution of $8,493. Since the contribution seems modest for such high profile individuals, I interpret it as a measure of ideological alignment, rather than investment to gain political influence (Gordon,

[1]The FOMC is the Federal Reserve committee responsible for setting U.S. monetary policy, including interest rate decisions.

Hafer, and Landa, 2007a).

The second measure captures political affiliation based on personal political ties. Specifically, I extract biographical information from FOMC members' profiles to identify any publicly held, politically connected positions prior to their tenure at the Fed. Additionally, since Fed Governors are directly appointed by the U.S. President and confirmed by the Senate, I enrich my dataset by including these nominees. Thus, this measure reflects personal connections between FOMC members and politicians. These two measures of party affiliation are defined at the individual level, for each FOMC member, and do not change over time. By comparing the party of each FOMC member with the party of the incumbent U.S. President, I construct a time-varying measure of political alignment: a governor is considered politically aligned if they share the same party as the President, and misaligned if they do not.

When the U.S. President's party changes following an election, the political alignment of all FOMC members also switches. I use this exogenous change in alignment to run stacked Difference-in-Differences regressions, constructing a four-year window around each election in which there is a change of President. Specifically: (i) I examine how changes in alignment affect individual FOMC members' monetary policy preferences; (ii) I study how alignment influences the committee's collective interest rate decisions; and (iii) I estimate the overall effect of politically driven interest rate changes on real GDP, employment, the stock market and inflation.

In the first part of my empirical analysis, I use textual analysis through a ChatGPT large language model on FOMC transcripts to derive each member's preferred monetary policy alternative at every meeting by analyzing their individual policy statements. The results indicate that a one-point increase in political alignment raises the probability of favoring an easier monetary policy alternative than the final directive by between 3 and 11 percentage points, depending on the alignment definition. Furthermore, by using a new dataset on individual FOMC members' forecasts, I demonstrate that a positive change in alignment leads to a more optimistic view of the economy. Specifically, aligned members tend to overestimate real GDP growth and underestimate inflation, accounting for between 4% to 8% of the average absolute forecast error. I also construct individual-level forward-looking Taylor rules using these forecasts and compare the implied interest rates with those inferred from FOMC transcripts via large language models. For a one-point increase in political alignment, the preferred interest rate is approximately 5 to 6 basis points lower than the rate implied by the Taylor rule. This

shows that aligned members not only produce more optimistic macroeconomic forecasts but also advocate for lower interest rates than those implied by their own forecasts based on Taylor Rules. On one hand, this evidence, suggests that forecasts may be more strategic than purely objective—portraying a better economic outlook to support the incumbent administration if politically aligned. On the other hand, it indicates that their voting behavior is driven by factors beyond personal economic beliefs or policy preferences. Instead, it seems that members strategically adjust their monetary policy positions, advocating for lower rates to support a politically aligned administration, and higher rates to challenge an administration from the opposing party. Additionally, I show that FOMC members who vote along partisan lines are more likely to be reappointed as governors or to secure politically relevant public positions once their terms at the Fed expire, indicating that FOMC members may strategically adjust their votes to extract benefits in their subsequent career paths.

I also extend my dataset by classifying every FOMC member since the committee's formation in 1936. Because meeting transcripts from earlier periods aren't available, I focus on dissenting votes to identify voting patterns. I find a consistent trend: politically aligned members tend to vote for lower interest rates, while politically misaligned members prefer higher rates and tighter monetary policies. This pattern holds true across governors from both the Republican and Democratic parties, demonstrating that the mechanism I document is robust over a long historical period, regardless of the U.S. president, the broader historical context, or the policy instruments used by the Federal Reserve.

In the second part of my study, I show that political alignment influences not only individual preferences but also the FOMC's collective interest rate decisions. To derive this, I construct an overall measure of committee alignment by aggregating both types of political alignment indicators and averaging them across the voting members. As before, changes in U.S. presidencies serve as exogenous shocks to committee alignment. I employ a stacked Difference-in-Differences approach to assess how the FOMC's interest rate decisions diverge from the Greenbook staff's recommendations, which are prepared for each meeting.[2] Greenbook recommendations are rule-based and data-driven. Additionally, the Greenbook's forecast errors about macroeconomic variables remain stable around elections with changes in the presidential party, indicating that the Greenbook serves as a reliable and politically neutral benchmark.

[2]The Greenbook is a report containing economic forecasts and policy recommendations prepared by Federal Reserve staff before each scheduled FOMC meeting. After 2010, it was renamed the Tealbook. For consistency, I refer to it as the Greenbook throughout this study.

The results indicate that for a one-point increase in committee alignment, the FOMC reduces the federal funds rate by approximately 25 basis points relative to the technicians' suggestion, highlighting the significant role of political alignment in policy-making. Additionally, downward deviations from the Greenbook are much more frequent during periods of political alignment between the government and the central bank, whereas upward deviations are common when they are misaligned. Cumulatively over my sample, when misaligned, the central bank raises interest rates by an average of 4.1 percentage points above the Greenbook recommendation, and when aligned, it cuts rates by an extra 3.6 percentage points.

Finally, I examine the real economic effects of the FOMC's deviations from the Greenbook interest rate. Using local projections and impulse response functions, I demonstrate that these deviations have significant impacts on several macroeconomic variables, behaving as a "traditional" monetary policy shock. Specifically, a 25-basis point expansionary deviation from the Greenbook—caused by a one-point shift in FOMC political alignment—results in a short-run real GDP boost of up to 1.1%, a stock market increase of up to 9.8%, and a reduction in unemployment of up to 0.6%. These effects are transitory over a five-year horizon, and they come at the cost of higher long-run inflation, rising by as much as 0.3%. Conversely, when the committee is misaligned, it raises interest rates above the Greenbook recommendation more frequently, leading to short-run losses in output but achieving lower long-run inflation. These findings suggest that the Fed policymakers act as political players, adjusting the weight assigned to the output/inflation trade-off based on their political alignment with the current administration. In this way the Fed is able to generate a partisan business cycle depending on political alignment: it can either support the U.S. executive's economic agenda when politically aligned, by reducing interest rates and stimulating short-term economic growth, or counteract the administration's objectives during periods of political misalignment, by raising interest rates and inducing an economic slowdown.

The remainder of this study is organized as follows. Section 2 reviews the relevant literature. Section 3 describes the data and variable construction. Section 4 details the empirical strategy and presents the main results. Section 5 concludes.

2 Literature review

To the best of my knowledge, this is the first study showing that central bankers' personal political alignment with the sitting president influences their monetary policy decisions, shedding new light on our understanding of central bank independence and decision-making process. Specifically, when the central bank is politically aligned with the executive branch, it lowers interest rates to stimulate short-term economic growth; conversely, when politically misaligned, it raises rates, leading to short-term economic contraction, causing a partisan business-cycle. This work contributes to multiple areas of the literature, spanning political economy, monetary policy, and the interaction between politics and finance.

The literature on central bank independence originates from seminal theoretical contributions of Kydland and Prescott (1977) and Calvo (1978), who formalized the time inconsistency problem of discretionary monetary policy. Subsequent work by Barro and Gordon (1983), Rogoff (1985), Persson and Tabellini (1997) and Walsh (1995) suggests that delegating monetary policy to an independent central bank mitigates inflationary bias and enhances long-term macroeconomic stability by insulating policy decisions from political interference. Cross-country empirical studies further corroborate these insights, documenting the economic and financial benefits associated with greater central bank independence (e.g., Alesina and Summers, 1993, Aklin and Kern, 2021, Grilli, Masciandaro, and Tabellini, 2014).

Recent research further suggests that focusing solely on *de jure* central bank independence is insufficient; instead, attention must also be paid to *de facto* independence—that is, the actual ability of central banks to operate without political interference (Ioannidou, Kokas, Lambert, and Michaelides, 2023). Even when statutory provisions guarantee independence, governments may still exert informal pressure on central banks, compromising their autonomy. Goncharov, Ioannidou, and Schmalz (2023) show that central banks are more likely to report positive profits when the political pressures are higher. Concerns about political independence are not limited to autocratic regimes or immature democracies. Recent empirical evidence from Drechsel (2024) and Bianchi et al. (2023) demonstrates that political pressure also affects the U.S. Federal Reserve—one of the most respected and institutionally independent central banks globally. Their findings show that political influence from the U.S. president has led to lower interest rates and contributed to higher inflation. Instead of focusing on external political pressures, I propose a novel channel of political influence — originating from within the central bank itself — in which monetary policy decisions are shaped by the personal political alignment

of central bankers with the incumbent president.

My work further contributes to the growing literature on systematic biases in expectations by showing that political alignment of the Fed governors with the U.S. president systematically influences their macroeconomic forecasts. This aligns with recent evidence documenting that even sophisticated agents—such as professional forecasters, analysts, and firms—exhibit persistent and directional forecast errors (Bordalo, Gennaioli, Ma, and Shleifer, 2020, Bucci, Mastromatteo, Benzaquen, and Bouchaud, 2019, Coibion and Gorodnichenko, 2015, Farmer, Nakamura, and Steinsson, 2024, Gómez-Cram and Lawrence, 2025, among others). I also add to recent evidence showing that political preferences shape economic beliefs and decision-making of sophisticated agents. Kempf and Tsoutsoura (2021) find that credit rating analysts adjust ratings based on partisan alignment with the president; Cassidy and Vorsatz (2024) show similar behavior among mutual fund managers; and Fos, Kempf, and Tsoutsoura (2024), Engelberg, Guzmán, Lu, and Mullins (2023), and Meeuwis, Parker, Schoar, and Simester (2022) provide evidence of partisan-driven actions by corporate executives and investors.

I add up to a literature aiming to better understand the functioning of the FOMC, by looking at individual characteristics—such as partisan affiliation or economic views (Chappell, Havrilesky, and McGregor, 1993, Bordo and Istrefi, 2023) and past inflation experiences (Malmendier, Nagel, and Yan, 2021)— shape preferences and voting behavior within the FOMC.

Finally, I contribute to the broader monetary policy literature by showing that the FOMC systematically deviates from Greenbook recommendations—lowering rates during periods of political alignment with the incumbent U.S. administration and raising them during misalignment—thereby generating a partisan business cycle through monetary policy (Romer and Romer, 2004b, Gertler and Karadi, 2015, Jarociński and Karadi, 2020, Nakamura and Steinsson, 2018, Bauer and Swanson, 2023, among others).

3 Data and variables construction

To show that political alignment between the monetary policymakers and the U.S. president leads to a political bias in central bankers' decision making, I construct two main individual-level measures of political affiliation with the Democratic and Republican parties for each member serving on the FOMC from 1992 to 2019. Moreover in Appendix A.1 I describe some additional measure to characterize political affiliation. The FOMC comprises a total of 19 members, of

which only 12 have voting rights. These voting members include (i) the seven Governors of the Federal Reserve Board, who are appointed by the U.S. President, confirmed by the Senate, and serve staggered 14-year terms to ensure independence from political cycles; (ii) the Chair of the Federal Reserve, who is appointed from among these Governors for renewable four-year terms; (iii) the President of the Federal Reserve Bank of New York, who holds a permanent voting seat; and (iv) four presidents from the remaining 11 regional Federal Reserve Banks, whose voting rights rotate annually. The regional Federal Reserve Bank presidents are selected by their respective boards of directors, and typically serve renewable five-year terms. In my main analysis, my dataset covers a total of 80 different FOMC members, 35 of whom served as Governors. It tracks their actions across 224 scheduled meetings over a 28-year period, under five different U.S. Presidents. It begins in 1992, as individual FOMC forecasts are not available prior to this date, and extends until 2019, since the Board of Governors releases data with a five-year lag. To show historical robustness, I also extend my main specification, looking at data starting from 1936, covering 15 different U.S. Presidents in Appendix A.6.

3.1 FOMC members political affiliation measures

Electoral campaign contributions I use individual campaign contribution data from the Federal Election Commission (FEC), which provides detailed records of political donations starting from 1979. By matching the name, location (zip code), occupation, and date of the donation in this dataset with the biographies of each individual member of the FOMC, I can link all donations made by the individual FOMC members, before joining the Fed. I record every donation made by each individual, including the relative amount and the recipient (usually a PAC). For most PACs, the FEC website already reports the party affiliation, but for those that are not reported, I use opensecrets, which tracks all contributions made by the PAC to different political candidates. I classify a PAC as Democrat or Republican if it donates more than 75% to candidates of one party, and bipartisan otherwise.

As shown in Table 1 panel A, out of 80 individuals in my sample, 52 (65%) donated at least once. The median amount donated is \$8,493.5, with a minimum of \$500, and a maximum of \$292,908. I then create a variable for political affiliation relative to Democratic party, as follows:

$$D_contributions = \frac{total_contribution_dem - total_contribution_rep}{total_contribution_rep + total_contribution_dem};$$

If the individual donates equally to both parties, I classify them as independent. This measure spans from -1 for fully Republicans to 1 for fully Democrats and 0 for independent, i.e. people who donated equally to both or didn't donate at all. I find that 26 individuals donated more to the Republican Party, classifying them as Republicans, 24 donated more to the Democratic Party, classifying them as Democrats, and 30 made no donations, classifying them as Independents, as reported in Table 1. The distribution of political affiliation according to contributions is reported in Figure 1a.

Electoral campaign contributions serve as a proxy for ideological alignment, as people typically donate to candidates who share their values (Hong and Kostovetsky, 2012). Gordon, Hafer, and Landa (2007b) show that corporate executives often make large donations to gain influence, rather than for ideological reasons. This motive seems less relevant here—the median contribution over a member's lifetime in the sample is roughly $8,000, a modest amount given the high-profile status of the policymakers. This fact suggests contributions in this context likely signal ideological alignment rather than efforts to buy political influence (Ansolabehere, de Figueiredo, and Snyder, 2002).

In the following analysis, politically independent individuals serve as a politically unbiased counterfactual and form the control group for evaluating the behavior of politically partisan FOMC members. However, individuals who have never donated may differ from donors in ways unrelated to political ideology. Moreover, political influence on decision-making can extend beyond ideology alone. To account for these two factors, I construct a second, separate measure of political affiliation based on the personal and professional ties between FOMC members and politicians.

Political connections: Fed appointments and public political positions Connections with politicians can shape policymakers' incentives by influencing their professional reputation, social networks, or future career opportunities. Policymakers with close professional ties to elected officials may seek to preserve those relationships, which could lead them to support monetary policies favorable to the sitting president—particularly when they share the same partisan affiliation—or to oppose them when they do not. To measure political connections, I rely on (i) appointments to the Federal Reserve Board of Governors and (ii) previous employment in politically-affiliated public positions.

Measure (i) relies on the appointment process of Federal Reserve governors, who are nom-

inated by the U.S. President and confirmed by the Senate. I improve upon the traditional approach—which typically classifies appointees solely based on the party of the nominating president—by incorporating information from Senate confirmation votes to capture the degree of partisanship. This refinement draws on an extensive literature in political science that highlights the Senate's influence on appointments (e.g., Cameron, Cover, and Segal, 1990, Kinane, 2021). Hence, I classify governors based on the political affiliation of the appointing President, further refined by analyzing Senate voting patterns to distinguish between bipartisan and partisan appointments. Specifically, I define Senate opposition as occurring when more than half of the senators from the opposing party vote against confirmation. Governors appointed by Democratic (Republican) Presidents who face significant Senate opposition are classified as strongly Democrat (Republican), whereas bipartisan appointments are identified by broad support from both parties. Presidents of local Federal Reserve Banks are instead classified as independent since they are appointed by local boards composed of representatives from banks and community groups.

Based on this idea, I construct a measure of party affiliation relative to Democratic party, *D_appointment*. I assign a score of 1 (-1) to governors appointed by a Democratic (Republican) President who faced opposition in the Senate, a score of 0.5 (-0.5) to those appointed without opposition, and a score of 0 to independent members. Governors who were appointed by both Republican and Democratic Presidents over time (two individuals in my sample) are classified as independent under this measure. Out of the 35 governors in my sample, 2 are classified as independent, 6 as Democrats without Senate opposition, 8 as Democrats with Senate opposition, 13 as Republicans without Senate opposition, and 4 as Republicans with Senate opposition.

In Figure 2, I show that Senate opposition to appointments made by the U.S. President to the Federal Reserve Board of Governors has become significantly more frequent over time, highlighting a clear rise in political polarization. While in the early 1990s all appointed members received bipartisan support, by 2020, five out of the seven sitting governors had been confirmed without the backing from the opposing party in the Senate. This pattern shows that central bank appointments are becoming more influenced by party politics. As this polarization increases, the findings in this study could become even more important for understanding how monetary policy is made in the future. For robustness, in Appendix A.1, I also construct an alternative measure of political affiliation based solely on the party of the appointing President,

as well as another measure that considers the Senate majority at the time of the appointment, rather than individual confirmation votes.

Measure (ii) considers past employment in politically affiliated or government positions. For this measure, I examined the biographies of FOMC members to identify individuals who previously held politically connected positions in government or politics-related roles. Information was sourced primarily from official Federal Reserve websites and other reliable resources, such as individual curricula vitae when available. I found that 33 members (41%) previously held politically connected public positions, such as roles on a politician's staff or appointments to high-profile government positions under Democratic or Republican administrations. I construct a measure of political affiliation, always relative to Democratic party, *D_career*. This measure takes value 1 (-1) if the FOMC member covered a role related to a Democrat (Republican) politician before his Fed appointment, 0 otherwise. In my sample, 16 individuals were related to Republican politicians and 17 to Democrat, whereas 47 members have no prior politically affiliated positions. A detailed list of roles classified as politically connected public positions is provided in Appendix A.2.

I combine measure (i), based on political appointments to the Federal Reserve Board of Governors, and measure (ii), based on prior employment in politically affiliated public roles, into a single measure *D_connection* by averaging the two. This combined measure offers a stronger view of political ties by capturing both how policymakers got into the Fed and their earlier roles in politically-related public positions. I also show robustness when using each of the two individual measures separately. The distribution of *D_connection* is reported in Figure 1b. As reported in Table 1 panel A, according to this political connection measure, my sample includes 22 individuals classified as Republican, 20 as Democrat, and 38 as independent. In the main empirical analysis I use *D_contributions* and *D_connections* as main measures of political affiliation, in Appendix I show robustness to different measures.

Overall party affiliation measure In Sections 4.1 and 4.2 I show that individual decision-making is influenced by both political connections and contributions separately. Hence, I construct an overall index of political affiliation for each individual, that considers both connections and contributions. I use this measure to construct an overall party affiliation measure at the FOMC level in Section 4.3, where I study interest rates decisions. For individual i the overall party affiliation measure, relative to Democratic party is defined as follows:

$$D_i = \frac{D_contributions_i + D_career_i + D_appointment_i}{3}. \quad (1)$$

This measure allows me to estimate the aggregate effect of political affiliation operating both through political connections and ideology at the committee level. Table 1 panel A reports the number of FOMC members classified as Republican, Democrat, and independent under this measure. Figure 1c reports the distribution of political affiliation according to this aggregate measure.

Table 2 presents correlations among the measures of political affiliation introduced in this section. Correlations are high and positive. If the correlation between D ad the other two measures is more mechanical by construction, the correlation of 0.63 between $D_connection$ and $D_contribution$ supports the consistency of these two distinct measures of party affiliation.

Figure 3 illustrates the evolution of average political affiliation of the FOMC over time, separately showing measures based on political connections, political campaign contributions, and the aggregate measure described above. On average, during Democratic (Republican) presidencies, the committee's political affiliation shifts towards the Democratic (Republican) side. An exception occurs during the Bush administration, when average alignment remains relatively stable. Since the aggregate measure includes both governors and regional Presidents—and the U.S. President directly influences only the appointment of governors—Republican presidencies do not necessarily result in a committee significantly more aligned with Republicans. Beginning with the Trump administration, the slope indicating changes in average political alignment becomes notably steeper, suggesting an acceleration in the shift of political affiliation.

Political alignment measure Based on these measures of FOMC members' political affiliation, I construct a measure of their political alignment with the sitting U.S. President's party. An FOMC member is considered aligned if they belong to the same party as the President, and misaligned if they belong to the opposing party. Specifically, for the different measures of political affiliation D_i^j, I define political alignment at time t as:

$$\text{aligned}_{it}^j = D_i^j \cdot D_t^{\text{pres}}, \quad (2)$$

where D_t^{pres} is a time-varying indicator for the President's party: 1 for a Democrat and -1 for a Republican. This interaction term is positive when an FOMC member's political affiliation

aligns with that of the sitting President, and negative when they are politically misaligned. For a given individual i, political alignment may change over time as the President's party changes. Between 1992 and 2019, the U.S. experienced four changes in presidency—Clinton (D) replacing Bush Sr. (R) in 1993, Bush Jr. (R) succeeding Clinton in 2001, Obama (D) replacing Bush in 2009, and Trump (R) taking office in 2017—along with three presidential re-elections (Clinton in 1996, Bush in 2004, and Obama in 2012), for a total of seven elections in the main sample period.

Career benefits To study if FOMC members gain any career benefit after their mandate, I collect data on (i) whether a governor is reappointed after her first term expires, and (ii) whether, upon leaving the FOMC, they are appointed to a politically connected public role. Based on this information, I construct three dummy variables: one indicating reappointment, one capturing post-Fed public appointments, and one combining either outcome. These indicators serve as proxies for career opportunities of FOMC members, after their first mandate expires.

3.2 FOMC monetary policy data

After classifying individuals according to their political affiliation, I examine FOMC meeting data to characterize members' behavior. Specifically, I analyze voting patterns, individual preferences for monetary policy alternatives, and personal forecasts of key macroeconomic variables. I rely primarily on two sources: (i) transcripts from FOMC meetings and supporting documents prepared by the staff of the Board of Governors prior to each meeting; and (ii) the "Monetary Policy Reports" and "Summary of Economic Projections," which contain committee members' individual-level forecasts.

FOMC transcripts The FOMC has eight scheduled meetings per year. Each meeting consists of technical presentations by staff members and discussions by FOMC participants regarding the current state of the economy and decisions about federal funds rates and open market operations. My analysis specifically focuses on the "policy go-round" section of the meetings, which typically occurs after the Chairman outlines the recommended policy decision. During this portion of the meeting, both voting and non-voting members express their views about the appropriate monetary policy stance. Members often reference specific monetary policy alter-

natives presented in the Bluebook technical report, explicitly state their preferred interest rate target, or align themselves with the preferences articulated by another committee member.[3] Following this discussion, each voting member casts a formal vote on the policy statement and directive proposed by the Chairman.

I construct three measures to capture FOMC members' policy preferences. The first, $dissent_expansionary_{it}$, indicates whether a member dissents for a more expansionary stance (1), does not dissent (0), or dissents for a tighter stance (-1). Although this measure is widely used (e.g., Belden, 1989, Bobrov, Kamdar, and Ulate, 2024), it has two main limitations: dissents are rare (5.75% in my sample as reported in Table 1 panel B), and transcripts suggest members may avoid dissenting even when they disagree with the committee's chosen policy. Moreover, the rotation mechanism prevents observing voting behavior continuously for all local presidents, since they only hold voting rights every two or three years.

To address these issues, I apply large language model algorithms to the FOMC transcripts to infer individual policy preferences and their preferred interest rate from textual analysis, following the procedure presented in Chappell, McGregor, and Vermilyea (2005). Using the Chat GPT API, I match each member's statements to a Bluebook policy alternative, extract their preferred rate, and compare it to the final monetary policy decision.[4] This yields $exp_policy_preference_{it}$, equal to 1 if a member prefers a more expansionary alternative than the approved monetary policy directive, 0 if in agreement, and -1 if more contractionary. Unlike voting data, as reported in Table 1 panel B, this measure shows greater heterogeneity—19.64% of individual preferences differ from the policy directive instead of the 5.7% of dissents—and it has no missing observations since it is derived for all FOMC members, making it suitable for Difference-in-Differences analysis. Finally, the third measure, $preferred_rate_{it}$, records each member's desired interest rate for the meeting at time t.

Forecasts In addition to examining voting behavior and monetary policy preferences, I extend my analysis to include individuals' forecasts of key macroeconomic variables, investigating whether these expectations are also influenced by political alignment. I rely on three main datasets:

(i) *Monetary Policy Reports* (MPR), available from the Philadelphia Fed website and cov-

[3]The Bluebook is an internal Federal Reserve document that outlines monetary policy alternatives and proposals for consideration at FOMC meetings.

[4]Details about the exact procedure and Chat GPT scripts are provided in Appendix A.3

ering the period from 1992 to 2007. These reports are submitted by the Federal Reserve to Congress twice per year (January/February and June/July). I use individual projections for real GDP, and inflation on a Q4-to-Q4 basis. From 1992 to 2004, the first report each year provides forecasts only for the current year, while the second report contains forecasts for both the current and following year. Between 2005 and 2007, forecasts are for the current and subsequent year. Notably, the measure of inflation varies across periods: CPI (1992–1999), PCE (2000–January 2004), and core PCE (June 2004–June 2007).[5]

(ii) *Summary of Economic Projections* (SEP), published quarterly by the Board of Governors from 2007 onward, provides individual-level forecasts for real GDP, core PCE, and overall PCE inflation. These projections cover the current year, the following year, and occasionally two years ahead, consistently measured on a Q4-to-Q4 basis.[6]

(iii) *Greenbook forecasts*, prepared before each scheduled FOMC meeting, contain staff expectations for real GDP growth and inflation, forecasted on a Q4-to-Q4 basis. I use these forecasts to build coefficients of individual-level forward-looking Taylor Rules in Section 4.2.

Greenbook optimal federal fund rate The Greenbook also includes an interest rate path considered "optimal" by the Federal Reserve staff. I obtain Greenbook prescription from the Philadelphia Fed website up to 2015, and Tealbook materials on the Board of Governors website thereafter. This staff-generated optimal interest rate serves as a counterfactual for the aggregate-level analysis of FOMC decisions in Section 4.3. I use it as plausibly politically unbiased benchmark for the FOMC's interest rate decisions for two primary reasons: first, the information set available to the FOMC members and the Federal Reserve staff at each meeting are nearly identical (Romer and Romer, 2008); second, the staff's optimal interest rate recommendation is significantly less susceptible to political influence, since it is based on data-driven policy rules, such as the Taylor rule or its variations.

4 Empirical Strategy

My empirical strategy is designed to isolate the effect of political alignment on monetary policy choices. I exploit the exogenous variation in political alignment of FOMC members generated

[5]The Chair's individual forecasts are not included until Bernanke's tenure, starting June 2006.

[6]Specifically, the forecasts extend two years ahead only when they are produced in the fourth quarter of the current year.

by the change in the party of the U.S. President around an election, and then apply a stacked Difference-in-Differences approach in Section 4.1 to estimate how political alignment shapes FOMC members' individual monetary policy preferences. I find that when a member becomes more aligned, they favor more expansionary policies and become more optimistic about the economy, overestimating real GDP and underestimating inflation. In Section 4.2, I construct individual-level forward-looking Taylor Rules using individual FOMC members' forecasts, and then compare the rule-implied interest rates with those derived from the transcripts. I find that a shift in alignment causes individuals to deviate from rule-implied rates toward lower rates.

In Section 4.3, I show that alignment with the U.S. President not only influences individual preferences, but also has an effect on the collective FOMC interest rate decisions. A positive shift in committee's alignment leads to lower interest rates. Finally, in Section 4.4, I demonstrate that politically-driven shifts in monetary policy have real economic effects: when the committee aligns with the President, it tends to lower rates further, boosting GDP, employment, and stock market performance in the short run but causing higher long-run inflation. Conversely, when the committee is misaligned, it raises rates more, slowing the economy in the short run but reducing long-run inflation.

4.1 Individual-level effects of political alignment on monetary policy decisions and forecasts

Monetary policy preferences I first show that, for FOMC members, political alignment—measured separately by electoral campaign contributions and political connections—is associated with a preference for more expansionary monetary policy. This is reflected in both their preferred policy alternatives and their dissenting votes. To show this, I estimate the following two-way fixed effects regression, including individual and meeting fixed effects:

$$y_{it} = \alpha + \beta \cdot aligned_{it} + \gamma_i + \gamma_t + \epsilon_{it}, \tag{3}$$

where y_{it} stands for both $dissent_expansionary_{it}$ and $exp_policy_preference_{it}$, defined in section 3.2, i indexes individual FOMC members, and t refers to FOMC meetings. Standard errors are double-clustered at the meeting level and at the individual-by-President level.[7]

[7] I cluster at the meeting and individual-by-President levels for two main reasons. First, the number of individuals in my sample is relatively small, so interacting individuals with Presidents increases the number of

Table 3 reports results in panel A for alignment defined in terms of campaign contributions and in panel B in terms of personal connections. In both panels political alignment is associated with higher probability to prefer or to dissent toward a more expansionary policy. Focusing on voting members, a one-point increase in alignment based on past campaign contributions raises the probability of favoring expansionary policy by 3.7 pp and increases the probability of dissent toward an easier policy by almost 1 pp. The effect is bigger when considering alignment based on connections, a one-point increase in political alignment corresponds to a 6.4 pp higher probability of supporting a more expansionary policy alternative and a 2 pp greater likelihood of dissenting in favor of ease. The economic magnitudes of these results are particularly significant when compared to the average share of preference for a policy different from the directive 19.6 pp in my sample, or to the historical dissent rate, that is 4.9 pp.

To identify the causal effect of political alignment on monetary policy preferences, I use a stacked Difference-in-Differences approach with continuous treatment. The treatment is defined as the exogenous change in political alignment, that occur after a change in the U.S. presidency. The control group consists of independent individuals whose political affiliation is zero, implying no change in their alignment measure happens when the presidency flips. The treatment group includes both individuals who experience a positive treatment (shifting from misaligned to aligned) and those who receive a negative treatment (transitioning from aligned to misaligned).

The stacked DiD regression specification for policy preferences is as follows:[8]

$$exp_policy_{ict} = \alpha + \beta_{DID} \cdot (change_alignment_{ic} \times Post_{tc}) + \gamma_{ic} + \gamma_t + \epsilon_{ict} \tag{4}$$

where c denotes treatment cohorts (four-year windows centered around presidential elections). Standard errors are double clustered at the individual-President and meeting levels as before.

Table 4 panel A reports the results for alignment measured through campaign contributions, panel B through political connections. Individuals experiencing a positive shift in political alignment—independently of the measure used—exhibit higher likelihood of favoring more expansionary monetary policy. For a one-point increase in alignment measured according to contribution, probability of preferring easier policy increases by 3 pp, and for a change in align-

clusters, improving statistical reliability of errors. Second, it's likely that observations are not only autocorrelated within individuals, but even more so within individual-by-President pairs, since, as I will show, FOMC members' decisions are influenced by the sitting U.S. President.

[8] As highlighted in section 3.2 I cannot use a DiD approach using dissenting behavior due to a discontinuity of individuals in the dataset for voting rotation mechanism.

ment based on political connections there is a much bigger increase of 9.3 pp. Appendix A.7 shows that results are statistically significant and with similar magnitudes, when considering different measures of political alignment.

These findings suggest that both types of political alignment affect FOMC members' monetary policy preferences, with a stronger impact from personal ties. Column (2) of Table 4 replicates the analysis for Federal Reserve governors only and confirms results similar to Column (1), which includes all committee members. A one-point increase in alignment measured through contributions raises the probability of favoring easier policy by 5.4 pp, while alignment based on connections leads to an 11.2 pp increase. This robustness check further mitigates concerns related to comparing heterogeneous groups—specifically, regional Federal Reserve Presidents and Board governors—who might systematically differ in their decision-making processes.

A potential concern to identification is that elections are major events that can lead to many economical and political changes, so FOMC members might react differently because of their views on policies, not necessarily because of political alignment. I address this concern in two main ways. First, I use four different presidential elections in the stacked Difference-in-Differences approach, spanning nearly 30 years. This captures a wide range of administrations, policy environments, economic conditions, and FOMC members, helping to mitigate concerns about confounding factors unrelated to political alignment. Second, in Appendix A.4, I conduct a placebo test using the same Difference-in-Differences framework, but focusing on elections in which the sitting President was re-elected (i.e., no change in leadership). Policies usually shift after the second term is guaranteed, since the U.S. President is no longer running for reelection. I find no evidence of differential behavior around these elections, strengthening the interpretation that political alignment—not broader electoral effects or policy changes—is the main driver of the shift in monetary policy preferences.

Macroeconomic forecasts In a similar fashion, I analyze how changes in political alignment affect individual macroeconomic forecasts. Forecasts play a crucial role in monetary policy decisions, as monetary policy actions typically influence the economy with a lag. Central banks thus invest significant resources into producing accurate forecasts. I focus on individual forecasts of real GDP growth and inflation, as these two variables are central to most monetary policy rules adopted by modern central banks. I define forecast error of individual i for each macroeconomic variable y at meeting t and forecast horizon h as follows:

$$expectation_error^{y}_{i,t,t+h} = \mathbb{E}^{i}_{t}[y_{t+h}] - y_{t+h}, \tag{5}$$

where positive values represent overestimation, and negative values reflect underestimation of the realized macroeconomic outcomes. Realized data are sourced from FRED. I use a similar empirical specification to (4), adding horizon-by-cohort fixed effects to control for systematic differences across quarterly forecast horizons in addition to meeting and individual-by-cohort fixed effects:

$$expectation_error^{y}_{ic,t,t+h} = \alpha + \beta_{DID} \cdot (change_alignment_{ic} \times Post_{tc}) + \gamma_{ic} + \gamma_{t} + \gamma_{ch} + \epsilon_{icth}, \tag{6}$$

where $expectation_error^{y}_{ic,t,t+h}$ is computed both for real GDP growth and for inflation. As in (4) standard errors are double clustered at individual-President and meeting levels.

As shown in Table 5, columns (1) and (3), a one-point increase in political alignment raises GDP forecast errors by 4.2–5.1 basis points and lowers inflation forecast errors by about 1.7 basis points, though the inflation result is not statistically significant when using the connection-based measure. The effects are stronger when looking only at Board governors only in columns (2) and (4), reaching 8.9–10.6 basis points for GDP and roughly 3 basis points for inflation. To interpret these magnitudes, note that the average absolute GDP forecast error in the sample is 1.3 pp, while the average inflation forecast error is 0.51 pp. Thus, the observed effects represent 4–8 percent of the average absolute GDP forecast error and 3–7 percent of the average absolute inflation forecast error, indicating biases that are both statistically and economically significant. Robustness to different measures of political alignment is shown in Appendix A.7

It could be that aligned FOMC members behave differently because their ties to the current government grant them insights into future policy decisions or privileged data access. In Appendix A.5, I test this possibility by re-estimating (5) using absolute forecast errors for real GDP growth and inflation, to see if aligned members have more precise forecasts due to an information advantage. The results show the opposite: aligned members actually have larger absolute errors, indicating no evidence of privileged policy information. Instead, it appears that these members may be strategically adjusting their forecasts.

In summary, the evidence in this section suggests that political alignment causally influences FOMC decision-making in two key ways, introducing a political bias: (i) It shapes monetary

policy preferences and dissenting behavior: aligned individuals favor lower interest rates; (ii) It affects macroeconomic forecasts: aligned individuals exhibit greater optimism regarding future economic conditions, expecting higher GDP growth and lower inflation.

Historical robustness In Appendix A.6, I replicate (3) to analyze monetary policy preferences among all FOMC members, starting in 1936, covering almost 90 years of FOMC meetings and 15 different Presidencies. While the Federal Reserve's main monetary policy instruments have evolved over time, and detailed meeting transcripts are only available from the late 1970s onward, comprehensive records of each member's voting behavior are available throughout the period. Moreover, the Federal Reserve Bank of Philadelphia provides a classification of dissenting votes based on their policy direction, allowing me to distinguish between hawkish and dovish dissents. Using the political alignment measures described in Appendix A.1, I extend the classification of governors and regional Fed presidents back through the historical sample. Across all measures, I find that political alignment is positively correlated with the likelihood of dissenting in favor of a more expansionary monetary policy stance. This relationship is both statistically and economically significant, and aligns with the baseline findings reported in Table 3.

4.2 Individual level forward looking Taylor Rules

In this section, I propose a unified framework to compare FOMC members' macroeconomic forecasts with their interest rate preferences. Building upon the methodology of Clarida, Gali, and Gertler (2000), I construct individual-level forward-looking Taylor Rules for each FOMC member, using their own forecasts for real GDP and inflation. This approach allows me to contrast forecasts-implied interest rates with members' stated preferences as stated in the meeting transcripts.

I define the forward-looking Taylor Rule as follows:

$$ffr_{it}^{h} = r_t^* + \pi_t + \gamma_t^h \cdot E_t^i x_{t+h} + \beta_t^h E_t^i(\pi_{t+h} - \pi^*), \tag{7}$$

where ffr_{it}^{h} is the implied federal funds rate at quarter horizon h, as forecasted by individual i at meeting t. The term x_{t+h} denotes the output gap at $t+h$, π^* is the constant inflation target, and r_t^* represents the neutral long-run real rate.

To estimate policy coefficients of (7) I use Greenbook forecasts for current-year Q4-to-Q4 growth and next-year Q4-to-Q4 growth, matching the horizons with FOMC forecasts. The use of Greenbook forecasts to estimate coefficients offers two main advantages: (i) Greenbook forecasts are produced before each scheduled FOMC meeting, making them significantly more frequent than FOMC forecasts, which in my dataset are available only twice per year prior to 2007, and four times per year thereafter; and (ii) they provide a clear analytical framework in which all heterogeneity in the Taylor rule-implied interest rates comes only from differences in forecasts across agents, rather than from differences in the policy coefficients. Coefficients are estimated through rolling ordinary least squares (OLS) regressions with a six-year window:

$$ffr_t = r_t^* + \pi_t + \gamma_t^{GB,h} \cdot E_t^{GB} x_{t+h} + \beta_t^{GB,h} E_t^{GB}(\pi_{t+h} - \pi^*), \tag{8}$$

where ffr_t are the realized federal funds rates, $E_t^{GB} x_{t+h}$ and $E_t^{GB}(\pi_{t+h} - \pi^*)$ are respectively Greenbook forecasts for output gap and for inflation gap at horizon h. Inflation measures are defined consistently with FOMC forecasts as detailed in the data section.

Figures 4a and 4b illustrate the evolution of these estimated Greenbook coefficients over time. Results indicate that as the forecast horizon increases, the estimated response to the output gap diminishes, while sensitivity to expected future inflation gap increases. These figures suggest that policy-makers care about stabilizing long run inflation rather than current one, balancing it with a response to current output gap.

By substituting the estimated coefficients from (8) into the following equation, I derive the Taylor Rule-implied interest rates $\hat{ffr}_{it}^{h}$:

$$\hat{ffr}_{it}^{h} = r_t^* + \pi_t + \hat{\gamma}_t^{h,GB} \cdot E_t^i x_{t+h} + \hat{\beta}_t^{h,GB} E_t^i(\pi_{t+h} - \pi^*) \tag{9}$$

In this way, I construct an individual-level counterfactual interest rate based on each member's forecasts. By comparing this forecast-implied rate with the actual preferred rate derived from the transcripts, I show how changes in political alignment influence policy decisions relative to the forward-looking Taylor rules prescription. First, I regress the difference between the observed and Taylor rule-implied rates on individual political alignment, including meeting, individual, and forecast-horizon fixed effects:

$$ffr_{it}^{obs} - \hat{ffr}_{it}^{h} = \alpha + \beta \cdot aligned_{it} + \gamma_i + \gamma_t + \gamma_h + \epsilon_{ith} \tag{10}$$

Second, I employ the Difference-in-Differences strategy as described in section 4.1 to estimate how this deviation responds to an exogenous shift in alignment:

$$ffr_{it}^{obs} - \hat{ffr}_{it}^{h} = \alpha + \beta_{DID} \cdot (change_alignment_{ic} \times Post_{tc}) + \gamma_{ic} + \gamma_t + \gamma_{hc} + \epsilon_{ict} \tag{11}$$

Table 6 reports the regression results. Column (1) shows estimates of β for (10), while column (2) presents the DiD estimates of β_{DID} for (11). Panel A measures political alignment through political contributions, and Panel B uses political connections. These findings show that a one-unit increase in political alignment leads to a drop in observed interest rates compared to the Taylor Rule by about 4–6 basis points, according to both political-alignment measures.

Interpretation and economic channel Aligned members not only produce more optimistic macroeconomic forecasts but also advocate for lower interest rates than those implied by their own forecasts based on Taylor Rules. On one hand, this evidence, combined with the findings in Section 4.1, suggests that forecasts may be more strategic than purely objective—portraying a better economic outlook to support the incumbent administration if politically aligned, yet without translating into actual interest rate decisions. On the other hand, the systematic deviation toward lower interest rates when members are politically aligned, and toward higher rates when misaligned—relative to their forecast-implied rates (thus already accounting for changes in views about the economic outlook)—indicates that their voting behavior is driven by factors beyond personal economic beliefs or policy preferences. Instead, it suggests that members strategically adjust their monetary policy positions, advocating lower rates to support an incumbent administration from their own party, and higher rates to challenge an administration from the opposing party.

Additionally, in Appendix A.8, I show that FOMC members who vote along partisan lines—favoring looser monetary policy when politically aligned and tighter policy when misaligned—are more likely to be reappointed as governors or to secure politically relevant public positions once their terms at the Fed expire. Moreover, these voting patterns seem to be particularly evident toward the end of their mandates. Although the significance of these correlations may vary depending on the specification, combined with earlier evidence they suggest that FOMC members may strategically adjust their votes to extract benefits in their subsequent career paths. Career advancement in the public or political sector is only one potential benefit that governors might obtain from strategically aligning their monetary policy decisions

with partisan interests. In a politically polarized world, governors could also receive informal recognition, social approval, or increased visibility among partisan peers, media, or advocacy groups, further incentivizing strategic alignment with political parties through monetary policy decisions.

4.3 Interest rate decisions at the FOMC level

This section shows that political alignment not only affects individual preferences but also has aggregate implications for Committee's policy decisions and overall interest rate setting. To do so, I construct a measure of overall committee alignment. As shown in Sections 4.1 and 4.2, alignment based both on connections and contributions shape monetary policy decisions. Thus, I first combine–as explained in Section 3.1–these two measures to derive an index of political alignment capturing at the same time both connections and political campaign contributions. Then I aggregate at the committee level, averaging among all voting members.

In constructing this measure, I follow the literature on FOMC decision-making, which emphasizes the importance of the role played by the Chair in shaping monetary policy (Romer and Romer, 2004a, Riboni and Ruge-Murcia, 2023, Chappell Jr, McGregor, and Vermilyea, 2004b). The Chair is responsible for proposing the monetary policy directive after building consensus among committee members. Once the proposal is made, committee members can either support or dissent from the proposed policy but cannot modify it. Accordingly, I build the aggregate committee alignment at meeting t as the weighted average between the Chair's alignment and the alignment of the remaining voting committee members:

$$\text{comm_aligned}_t = \lambda \cdot \text{chair_aligned}_t + (1 - \lambda) \cdot \text{avg_aligned}_t \tag{12}$$

where the weight parameter λ can range from $1/N_{voters}$ (reflecting equal decision-making influence for all voting members, including the Chair) to 1 (representing full decision-making authority of the Chair). Following the estimate of λ of Chappell Jr et al. (2004b), the baseline analysis presented in this Section uses a calibration of $\lambda = 0.4$.[9] Figure 7 illustrates the evolution of overall committee alignment over time. Big jumps mechanically occur in correspondence of change in presidencies, where the sign of the alignment flips, or when a new chair is appointed, due to the weight the Chair carries in determining overall committee alignment.

[9]Other values of λ are considered in Appendix A.11. Results are consistent.

Building on the approach from Section 4.1, I adapt the Difference-in-Differences design to analyze how political alignment affects the FOMC's aggregate interest rate decisions around presidential transitions. In this setting, overall committee alignment changes as new members are appointed or others exit, and regional Presidents rotate on voting rights, hence I define the treatment as the difference in average committee alignment during the two years after a presidential election compared to the two years preceding it.

To benchmark these policy decisions, I use the Greenbook staff's recommended interest rate as an apolitical counterfactual. One week before each FOMC meeting, the Federal Reserve Board staff submits the Greenbook, presenting their suggested "optimal" interest rate path, including a recommended rate for the upcoming monetary policy decision. I argue that the Greenbook's recommendation is a good apolitical counterfactual for three main reasons: (i) it utilizes essentially the same information set available to FOMC members. The Greenbook is prepared just prior to each meeting by hundreds of Federal Reserve staff economists, who dedicate significant resources to gathering accurate economic data and generating reliable forecasts (Romer and Romer, 2008). (ii) Greenbook recommendations are explicitly rule-based and data-driven. They rely on established monetary policy frameworks, such as the Taylor Rule and its inertial variants, and systematically incorporate current economic data and forecasts. Appendix A.9 provides narrative evidence from Greenbook reports describing the structured methodology behind their interest rate recommendations. (iii) I empirically show in Appendix A.10 that Greenbook forecast errors do not systematically differ before and after elections involving a change in the president's party, indicating their political neutrality.

All these considerations collectively mitigate concerns regarding political bias in the control. Then, I estimate a dynamic Difference-in-Difference regression, as follows:

$$ffr_t^j = \gamma_t + \alpha_{cj} + \sum_{k=-6}^{4} \beta_k \cdot \text{change alignment}_{jc} \cdot \mathbf{1}_{tck} + \epsilon_{jct} \tag{13}$$

where ffr_t^j represents the two interest rates: the actual federal funds rate set by the FOMC and the rate suggested by the Greenbook. The index t refers to FOMC meetings, and k denotes the number of semesters relative to a presidential election (with $k = 0$ indicating the election semester). To clearly illustrate the absence of pre-trends, I extend the analysis to include a three-year period before presidential elections, while maintaining the original definition of treatment. Additionally, I aggregate data at the semester level, to increase the number of

observations for each point estimate of β_k and improve statistical robustness.

Figure 6 plots the coefficient estimates β_k with 95% confidence intervals. Treated and control series exhibit parallel trends before the presidential changes. After an election, a 1-point exogenous shift in political alignment causes a reduction of approximately 25 basis points in the federal funds rate compared to the Greenbook's optimal recommendation. This deviation is economically significant, as typical market uncertainty around Federal Reserve policy decisions is usually around 25 basis points.

These findings are robust to different specifications. In Appendix A.11, I present results obtained with alternative values of λ, and in Appendix A.12, I use a leave-one-out approach—dropping each presidential transition in turn, to confirm that no single election drives the main results.

Prior work suggests that government pressure on central bankers can lead to lower interest rates (Bianchi et al., 2023, Drechsel, 2024). I contribute to this literature, by showing a new mechanism: politics plays a role not only by pressuring independent central banks to lower interest rates, but it also affects policymakers depending on their alignment with incumbent administration: when the central bank and executive are politically aligned, monetary authorities set lower interest rates, whereas misalignment pushes them upward, relative to an unbiased benchmark.

4.4 Real effects on the economy

I then examine whether FOMC deviations from the Greenbook's interest rate recommendations have real effects on the economy. Romer and Romer (2004b) use a narrative approach to identify surprises in interest rate decisions, constructing monetary policy shocks by orthogonalizing these surprises with respect to Greenbook forecasts. This isolates true policy shocks from changes in available information. In a similar fashion, I treat deviations from the Greenbook's recommendation as monetary policy shocks. Since the Greenbook and the FOMC share the same information set, any deviation reflects discretionary decision-making rather than a response to new economic data.

Figure 7 presents the time series of the monetary policy shocks I have constructed. Two prominent negative spikes stand out: one in the fourth quarter of 2001, following the terrorist attacks of September 11, and another in the fourth quarter of 2008, following the collapse of Lehman Brothers. To ensure that these extreme events do not drive my results, I conduct a

robustness check in Appendix A.13, where I exclude these two data points. The results are largely unchanged.

Table 7 reports the cumulative sum of deviations from Greenbook recommendations over the full sample period, normalized to reflect deviations on an annual basis. These deviations are presented separately for periods when the FOMC and the U.S. president are politically aligned and when they are politically misaligned. To measure the uncertainty associated with these cumulative deviations, I calculate standard errors using a nonparametric bootstrap. Specifically, I randomly resample the observed series of deviations (with replacement) and compute cumulative sums for each resampled series. This procedure is repeated 10,000 times, generating an empirical distribution of cumulative deviations from which I derive standard errors and confidence intervals. The results in Table 7 indicate that, over the sample, the FOMC cuts interest rates by 22 basis points per year when politically aligned with the U.S. president, and raises interest rates by 42 basis points during periods of misalignment, with respect to Greenbook recommendation. Consequently, the difference in cumulative deviations from the Greenbook between alignment and misalignment periods amounts to -64 bp per year. This result is both stastically significant and economically big. This evidence confirms findings of Section 4.3, reinforcing the idea that political alignment between the FOMC and the executive branch is associated with lower interest rates with respect to the rule-based Greenbook suggestion.

To estimate the dynamic effects of these interest rates deviations on key macroeconomic and financial variables, I employ the local projection approach introduced by Jordà (2005). I use quarterly data to estimate impulse responses over a five-year horizon, as follows:

$$y_{t+h} = \alpha_h + \beta_h \cdot \text{mp_shock}_t + \sum_{j=1}^{8} \Gamma_{h,j} X_{t-j} + \epsilon_{t+h}, \tag{14}$$

where t represents the quarter, y_{t+h} denotes the dependent variable of interest at horizon h (GDP, GDP deflator inflation, the S&P 500 index, and the unemployment rate), and mp_shock_t represents the FOMC interest rate deviation relative to the Greenbook, at time t. The vector X_{t-j} includes eight quarters of lagged control variables: GDP, inflation, interest rates, the S&P 500 index, 10-year government bond yields, and the unemployment rate. α_h is a horizon-specific constant term. The estimated coefficients β_h measure the response of the dependent variable h quarters after the monetary policy shock.

Figure 8 presents impulse response functions (IRFs) illustrating the dynamic effects of a

25-basis-point expansionary monetary policy shock over a 20-quarter horizon. The shape of these IRFs is consistent with the literature on monetary policy. The IRFs show that, following an expansionary shock of 25 basis points, real GDP increases by up to 1.1%, the stock market rises by up to 9.8%, and unemployment temporarily decreases by around 0.6 percentage points. However, these short-run economic benefits come at the expense of long-term inflation, which increases by as much as 0.35 percentage points after an initial temporary decline.[10] The IRFs further indicate that the real economic gains observed are short-lived, dissipating within a five-year horizon, whereas the inflationary impact persists in the long run. This evidence confirms the existence of an inflationary bias associated with discretionary monetary policymaking when there is political alignment between the FOMC and the Federal Government. An aligned FOMC is more inclined to lower rates below levels prescribed by a rule-based benchmark, leading to short-term economic stimulus but introducing persistent inflationary pressures. Conversely, when the Committee is politically misaligned with the incumbent administration, it tends to raise rates above the politically neutral benchmark, leading to reduced inflation in the long run at the expense of short-term economic performance.

This evidence reinforces the interpretation that partisan monetary policy contributes to a political business cycle. Specifically, during periods of political alignment, the FOMC lowers rates below the neutral, rule-based benchmark, generating a temporary economic expansion at the expense of higher inflation in the long run. Conversely, periods of political misalignment lead the Committee to raise rates above this benchmark, sacrificing short-term economic gains to achieve lower long-term inflation. Hence, partisan considerations within monetary policymaking create alternating cycles of short-lived economic booms with persistent inflationary consequences during periods of alignment, and short-term economic restraint coupled with lower long-term inflation during periods of misalignment.

5 Conclusion

This paper offers a new perspective on the way of thinking Central Bank independence. Traditional literature has focused on how external pressures by the executive may result in more dovish policies, introducing a long run inflationary bias in the economy and curbing central bank

[10]This initial decline in inflation is known in the literature as the cost channel effect, occurs because firms adjust their prices gradually following monetary policy shocks.

credibility. This paper argues that central bankers have internal political preferences, and these preferences play a significant role in shaping interest rate policy. Alignment and misalignment between the FOMC and the U.S. executive create a monetary-policy driven partisan business cycle: when the central bank is politically aligned with the administration, it sets lower interest rates, supporting the President's short-run electoral objectives at the cost of higher long-run inflation. In contrast, when the FOMC and the administration are politically misaligned, monetary policy becomes more restrictive—leading to short-run economic contraction, but helping to keep long-run inflation lower.

To show this, I construct novel individual-level measures of political alignment for each FOMC member, based on their electoral contributions and personal political connections. I use large language models to analyze meeting transcripts and apply a Difference-in-Differences framework that draws on exogenous changes in alignment caused by presidential elections. The results reveal consistent patterns of political influence at both the individual and committee levels, and are robust across different definitions of political alignment. Quantitatively, the effects of political alignment are substantial. A one-point increase in committee-level alignment leads to interest rates that are approximately 25 basis points lower than an apolitical counterfactual. These policy shifts produce significant short-run effects on the aggregate economy: a temporary increase of 1.1% in real GDP, a 9.8% rise in stock market performance, and a 0.6 percentage point reduction in unemployment—though these gains come at the cost of a 0.3 percentage point increase in long-run inflation.

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Table 1: Summary statistics of political affiliation measures and individual monetary policy choices

Panel A reports summary statistics for the political affiliation measures described in Section 3.1. Column (1) shows the classification of FOMC members as Democrats, Republicans, or Independents based on political campaign contributions, along with the minimum, median, and maximum cumulative contribution amounts over their lifetime. Columns (2) and (3) report the number of FOMC members by party affiliation based on personal political connections and an aggregate affiliation measure, respectively. The aggregate measure is computed as outlined in Section 3.1.
Panel B presents summary statistics on individual monetary policy votes and preferences. The first three rows report average dissent rates across all meetings (Column 1). Dissent is further broken down by direction—toward easier or tighter policy. The last three rows capture broader policy leanings, summarizing how often FOMC members expressed a policy preference that differed from the final policy directive, including the direction of their preferences (toward tighter or easier policy). The average for all members is shown in Column 1, and for voting members in Column 2. All values are expressed in percentage points.

Panel A: Political Affiliation by Measure Source			
	Contributions	*Connections*	*Overall*
Democrats	24	20	28
Independents	30	38	19
Republicans	26	22	33
Max Contribution ($)	292,908	–	–
Min Contribution ($)	500	–	–
Median Contribution ($)	8,493.5	–	–

Panel B: Dissent and Preferences Toward Monetary Policy Alternatives		
	Share of All Meetings	*Conditional on Voting*
General Dissent (pp)	4.95	–
Dissent Toward Easier Policy (pp)	0.93	–
Dissent Toward Tighter Policy (pp)	3.09	–
Different Policy Preference (pp)	19.56	15.14
Preference Toward Easier Policy (pp)	6.3	5.30
Preference Toward Tighter Policy (pp)	13.53	9.84

Table 2: Correlation matrix for political affiliation measures

This table reports the pairwise correlations among different measures of political affiliation constructed for FOMC members, all defined with respect to alignment with the Democratic Party. *D_contribution* captures political affiliation based on electoral campaign contributions made by FOMC members. *D_connection* reflects political affiliation derived from personal ties to politicians, measured through prior politically connected public roles and presidential appointments to the Board of Governors. *D* is an aggregate measure that combines both political contributions and political connections to provide a broader indicator of partisan affiliation, as described in Section 3.1.

	D_contribution	D_connection	D
D_contribution	1.00		
D_connection	0.65	1.00	
D	0.88	0.93	1.00

Table 3: Two-way fixed effects regressions of individual policy decisions on political alignment

This table shows how political alignment—based on campaign contributions (Panel A) and political connections (Panel B)—is related to FOMC members' monetary policy preferences and votes.
The dependent variables are *Expansionary Policy* and *Expansionary Dissent*. *Expansionary Policy* takes a value of 1 if a member expressed a preference for a more expansionary policy, 0 if they preferred maintaining the current stance, and -1 if they favored a tighter policy in a given meeting at time t. *Expansionary Dissent* follows the same structure but captures dissenting votes: 1 for dissent in favor of easier policy, 0 for no dissent, and -1 for dissent in favor of a tighter policy.
Columns (1) include all FOMC members, while columns (2) and (3) restricts the sample to voting members only. In column (3) the sample extends till 2024, since there is no 5 year lag-policy in data disclosure. The empirical specification is given by:

$$y_{it} = \alpha + \beta \cdot aligned_{it} + \gamma_i + \gamma_t + \epsilon_{it},$$

where i represents individual FOMC members and t denotes the meeting. The variable $aligned_{it}$ ranges from -1 to 1, capturing the degree of political alignment. γ_i and γ_t respectively represent individual and meeting fixed effects. Standard errors are double-clustered at the meeting and individual-U.S. President levels. Symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	Exp Policy (All members)	Exp Policy (Voting)	Exp Dissent (All members)
Panel A: Political contributions			
alignment	0.0136	0.0370**	0.00843*
	(0.0168)	(0.0146)	(0.00491)
Panel B: Political connections			
alignment	0.0583***	0.0638**	0.0199**
	(0.0212)	(0.0270)	(0.00938)
Individual fixed effects	Yes	Yes	Yes
Meeting fixed effects	Yes	Yes	Yes
Observations	3650	2134	2585

Table 4: Change in individual policy decisions around changes in political alignment

This table shows how changes in political alignment with the U.S. President affect FOMC members' voting on monetary policy. The analysis uses a stacked Difference-in-Differences approach based on four presidential elections where the President's party changed.
Treatment is defined as a shift in alignment—measured by campaign contributions (Panel A) and political connections (Panel B). Members who become aligned or misaligned after an election are treated; those with no change in alignment form the control group.
The dependent variable is *Expansionary Preference*, which takes a value of 1 if a member expressed a preference for a more expansionary policy, 0 for no change, and -1 for a preference toward a tighter policy at time t. Column (1) includes all FOMC members, while column (2) restricts the sample to FOMC governors only. The empirical specification is:

$$exp_policy_{ict} = \alpha + \beta_{DID} \cdot (change_alignment_{ic} \times Post_{tc}) + \gamma_{ic} + \gamma_t + \epsilon_{ict}$$

where i denotes the individual, c represents the cohort, and t refers to the meeting.
All regressions include individual-cohort and meeting fixed effects. Standard errors are double-clustered at the meeting and individual-U.S. President levels. Symbols *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	Exp policy (All members)	Exp policy (Governors only)
Panel A: Political contributions		
change alignment × post	0.0296*	0.0541**
	(0.0176)	(0.0259)
Panel B: Political connections		
change alignment × post	0.0938***	0.112**
	(0.0294)	(0.0479)
Individual × election fixed effects	Yes	Yes
Meeting fixed effects	Yes	Yes
Observations	1658	412

Table 5: Change in individual forecast errors of macroeconomic variables around changes in political alignment

This table shows how changes in political alignment with the U.S. President affect FOMC members' macroeconomic forecast errors. The analysis uses a stacked Difference-in-Differences approach based on four presidential elections where the President's party changed. Treatment is defined as a shift in political alignment after an election, measured by campaign contributions (Panel A) and political connections (Panel B). Members who become aligned or misaligned are treated; those with no change form the control group.
The dependent variables are forecast errors for real GDP and inflation across different forecast horizons, defined as the difference between the forecasted and realized values. Columns (1) and (3) include all FOMC members, while columns (2) and (4) restrict the sample to FOMC governors only. The empirical specification is:

$$expectation_error^{y}_{ic,t,t+h} = \alpha + \beta_{DID} \cdot (change_alignment_{ic} \times Post_{tc}) + \gamma_{ic} + \gamma_{t} + \gamma_{hc} + \epsilon_{icth},$$

where i represents the individual, c denotes the cohort, t the meeting, and h the forecast horizon.
All regressions include individual-cohort and meeting fixed effects. Standard errors are double-clustered at the meeting and individual-U.S. President levels. Symbols *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	GDP Fore Err (All)	GDP Fore Err (Only Governors)	Inflation Fore Err (All)	Inflation Fore Err (Only Governors)
Panel A: Political contributions				
change alignment × post	0.0408*	0.0886**	−0.0177**	−0.0319*
	(0.0203)	(0.0379)	(0.00688)	(0.0163)
Panel B: Political connections				
change alignment × post	0.0514**	0.106**	−0.0168	−0.0339
	(0.0250)	(0.0418)	(0.0142)	(0.0219)
Individual × election fixed effects	Yes	Yes	Yes	Yes
Meeting fixed effects	Yes	Yes	Yes	Yes
Horizon × election fixed effects	Yes	Yes	Yes	Yes
Observations	1505	384	1505	384

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 6: Difference between individual preferred interest rate and Taylor Rule-implied rate on political alignment

This table estimates how political alignment affects the difference between the FOMC members' preferred rate (derived from FOMC transcripts) and the Taylor Rule-implied rate based on their own forecasts.
The table reports results from two empirical specifications. Column (1) shows estimates from a two-way fixed effects regression, controlling for both individual and meeting fixed effects. Column (2) shows results from a stacked Difference-in-Differences approach, using exogenous changes in political alignment caused by four U.S. presidential elections in which the President's party changed.
The treatment variable captures changes in an individual's alignment with the President following an election. Political alignment is measured through campaign contributions (Panel A) and political connections (Panel B). Treated individuals may experience a positive treatment (previously misaligned, becoming aligned) or a negative treatment (previously aligned, becoming misaligned). The control group consists of individuals whose political alignment remains unchanged.
The TWFE empirical specification is:

$$ffr_{it}^{obs} - \hat{ffr}_{it}^{h} = \alpha + \beta \cdot aligned_{it} + \gamma_i + \gamma_t + \gamma_h + \epsilon_{ith},$$

where i represents the individual, t the meeting, and h the forecast horizon.
The DiD empirical specification is:

$$ffr_{it}^{obs} - \hat{ffr}_{it}^{h} = \alpha + \beta_{DID} \cdot (change_alignment_{ic} \times Post_{tc}) + \gamma_{ic} + \gamma_t + \gamma_{hc} + \epsilon_{ict},$$

where c denotes the cohort and $Post_{tc}$ equals one in the post-election period.
All regressions include individual-cohort and meeting fixed effects. Standard errors are double-clustered at the meeting and individual-U.S. President levels. Symbols *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	$ffr^{obs} - \hat{ffr}$ (TWFE)	$ffr^{obs} - \hat{ffr}$ (DiD)
Panel A: Political contributions		
alignment	-0.0459**	
	(0.0186)	
change alignment × post		-0.0369*
		(0.0203)
Panel B: Political connections		
alignment	-0.0650***	
	(0.0194)	
change alignment × post		-0.0548*
		(0.0305)
Meeting fixed effects	Yes	Yes
Individual fixed effects	Yes	No
Individual × election fixed effects	No	Yes
Horizon fixed effects	Yes	No
Horizon × election fixed effects	No	Yes
Observations	2390	1025

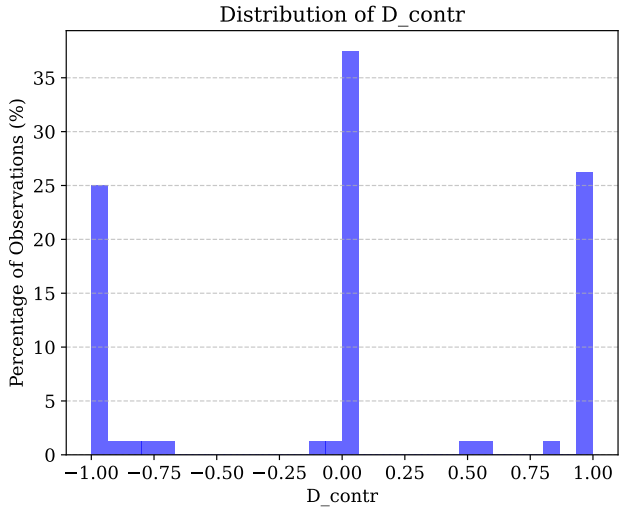
Table 7: Average yearly cumulative deviation of Federal Funds Rates from Greenbook suggestions

This table reports the cumulative deviation in percentage points, normalized yearly, of the federal funds rate, as decided by the FOMC, from the rate recommended by the Greenbook over the period 1992 to 2019. The Greenbook rate is produced by Federal Reserve staff ahead of each FOMC meeting and reflects the staff's assessment of the optimal policy rate, given economic conditions. Deviations are aggregated separately for periods when the FOMC is politically aligned or misaligned with the sitting U.S. President. Political alignment is calculated as a weighted average: 40 percent weight is given to the Chair's alignment and 60 percent to the rest of the voting committee, according to Chappell Jr, McGregor, and Vermilyea (2004a). Standard errors are computed using a nonparametric bootstrap. Specifically, I randomly resample the observed series of deviations (with replacement) and compute cumulative sums for each resampled series. This procedure is repeated 10,000 times, generating an empirical distribution of cumulative deviations from which I derive standard errors.
Column (1) reports the cumulative sum of these deviations for periods when the FOMC and the government are politically aligned, column (2) for periods in which there is misalignment; column (3) reports the cumulative difference between deviations happening during alignment and misalignment.

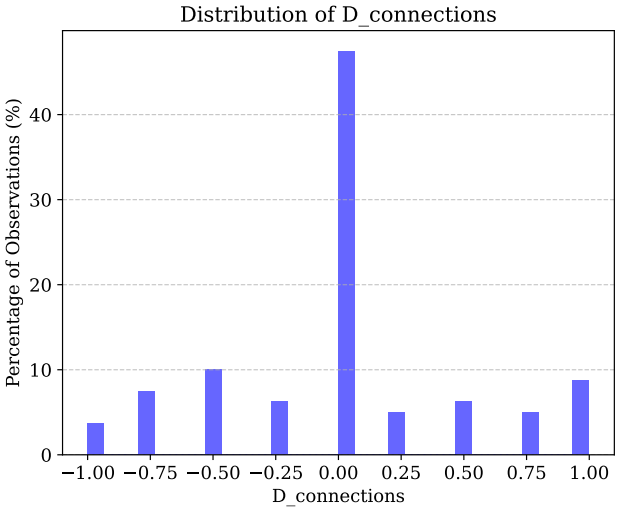
	Alignment	**Misalignment**	**Alignment - Misalignment**
Raise wrt GB (pp)	0.21***	0.52***	-0.31**
	(0.05)	(0.12)	(0.13)
Cut wrt GB (pp)	-0.43***	-0.11**	-0.33**
	(0.14)	(0.05)	(0.16)
Total wrt GB (pp)	-0.22	0.42***	-0.64***
	(0.16)	(0.13)	(0.20)

Figure 1: Distribution of political affiliation

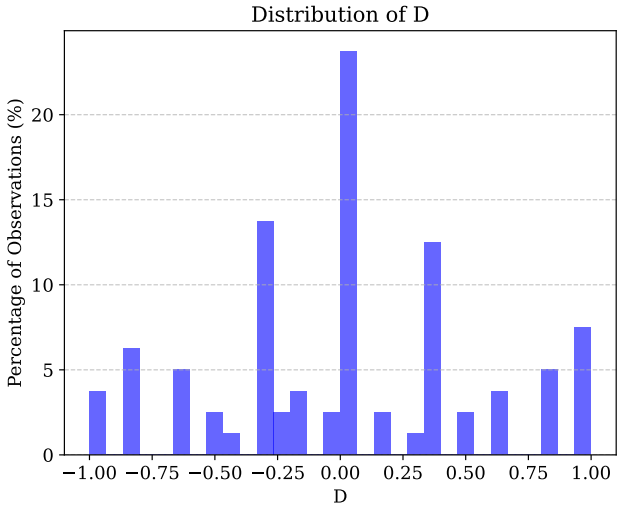
The figures illustrate the distribution of political affiliation with respect to the Democratic Party. Each measure ranges from -1, indicating full Republican affiliation, to 1, indicating full Democratic affiliation. Figure (a) reports the distribution of political affiliation based on electoral campaign contributions, (b) for political affiliation based on personal connections and (c) aggregate measure taking into account both contributions and connections as discussed in Section 3.1.



(a) Political Contributions



(b) Political Connections



(c) Overall Measure

Figure 2: Number of currently serving governors appointed with and without senate opposition

The figure shows the evolution over time of the number of the governors sitting in the FOMC over time, who were appointed with (in red) and without (in black) senate opposition. I define senate opposition as occurring when more than half of the opposition senators voted against the appointment proposed by the U.S. President. Periods of Republican presidencies are shaded in red, and Democratic presidencies in blue.

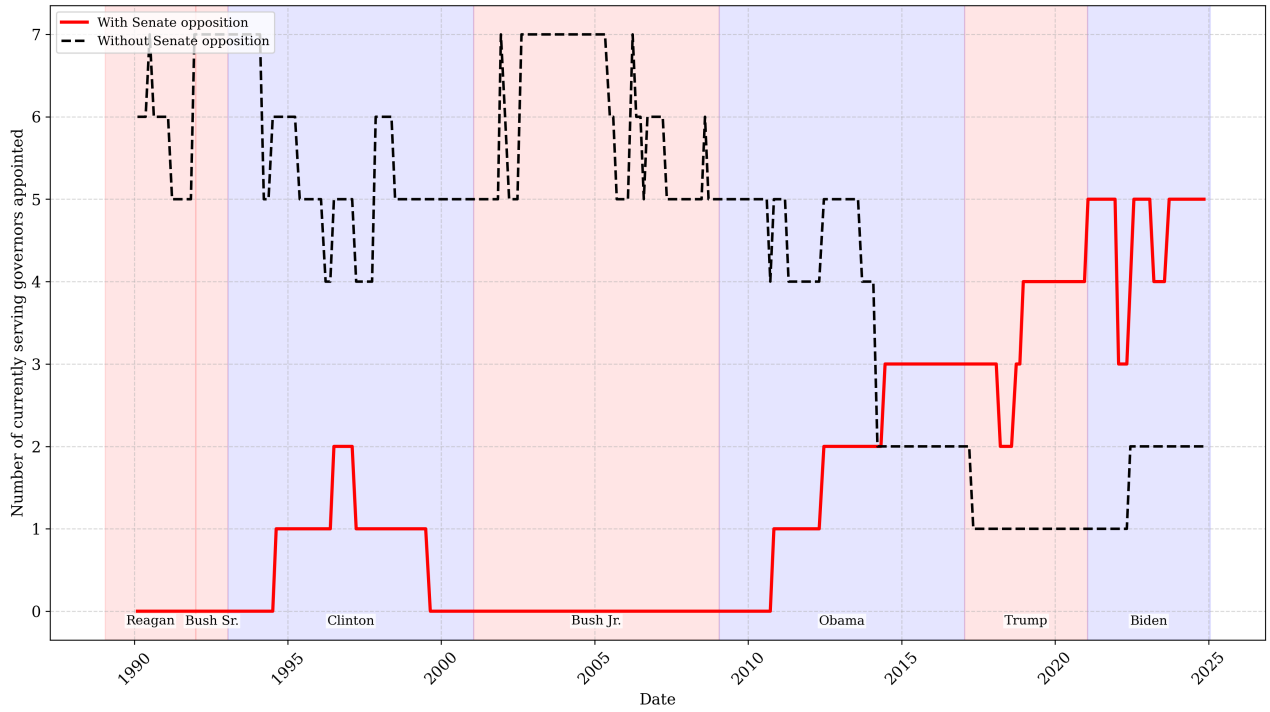


Figure 3: Average political affiliation of the FOMC over time

The figure shows the evolution over time of the FOMC's average political affiliation defined relative to Democratic party, based on three different measures. Each measure spans from -1 (full Republican) to 1 (full Democrat). The black dotted line represents the measure derived from electoral contributions, while the black dashed line reflects political affiliation based on personal connections between FOMC members and politicians. The red solid line shows an aggregate affiliation index, taking in consideration both contributions and connections as derived in Section 3.1. Periods of Republican presidencies are shaded in red, and Democratic presidencies in blue.

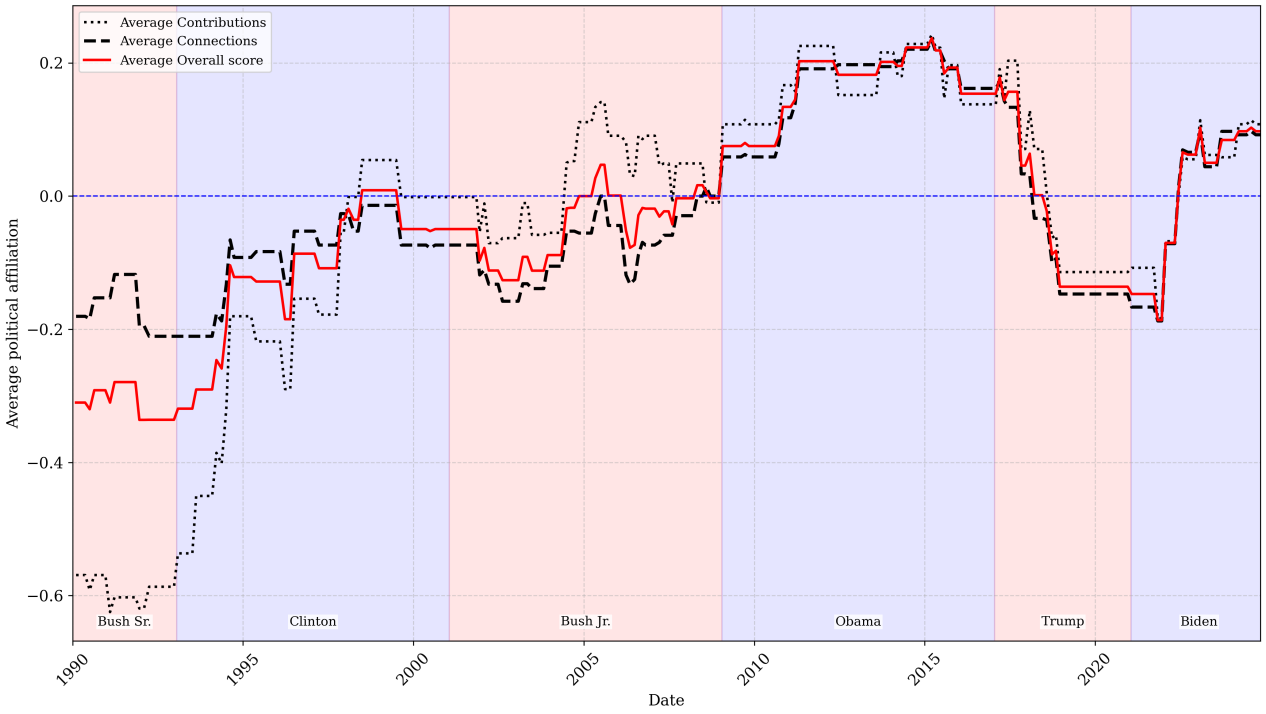
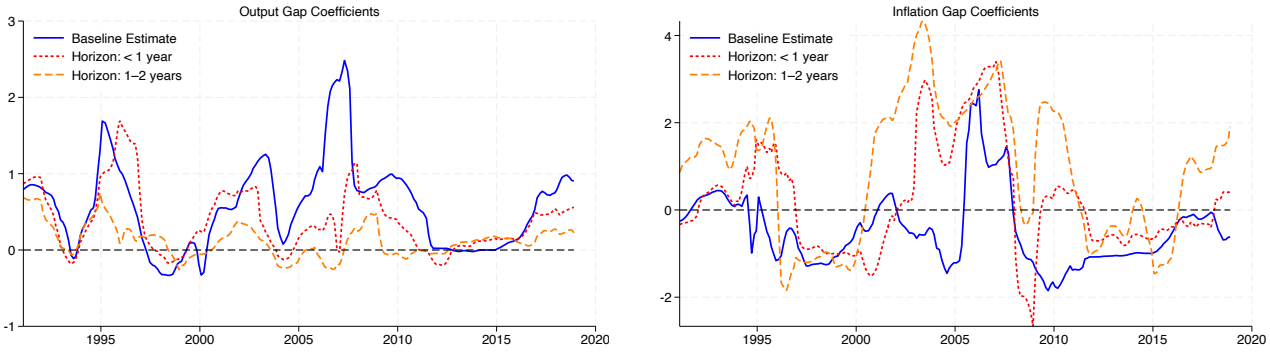


Figure 4: Rolling regression estimates of forward looking Taylor Rule coefficients

This figure presents the rolling OLS regression estimates of the coefficients for the forecast-implied federal funds rate, using a six-year rolling window. The estimates are derived from Greenbook forecasts, which are prepared by Federal Reserve staff before each FOMC meeting.
Panel (a) displays the estimated coefficients for the output gap across different forecast horizons, while Panel (b) shows the coefficients for the inflation gap. The blue solid line represents the baseline estimates, which use realized data for output gap and inflation gap. The red dotted line corresponds to the estimates based on Greenbook forecasts for Q4-to-Q4 growth for the current year, capturing a forecast horizon of less than one year that changes from meeting to meeting. The orange dashed line represents the estimates based on Q4-to-Q4 forecasts for the following year, corresponding to a forecast horizon between 1 and 2 years.
The regression specification used to estimate these coefficients is given by:

$$ffr_t = r_t^* + \pi_t + \gamma_t^{GB,h} \cdot E_t^{GB} x_{t+h} + \beta_t^{GB,h} E_t^{GB}(\pi_{t+h} - \pi^*),$$

where ffr_t is the realized federal funds rate, E_t^{GB} represents Greenbook forecasts at time t, for output gap x_{t+h} and inflation π_{t+h} at horizon h. The target inflation rate, π^*, is assumed to be constant at 2 percent, consistent with the FOMC's long-run inflation objective.



(a) Output gap coefficients

(b) Inflation gap coefficients

Figure 5: Overall committee alignment over time with $\lambda = 0.4$

This figure illustrates the evolution of the FOMC's overall political alignment over time, calculated as the weighted average of the Chair's alignment and the alignment of the remaining voting committee members (avg_aligned).The FOMC alignment measure is defined as:

$$\text{comm_aligned}_t = \lambda \cdot \text{chair_aligned}_t + (1 - \lambda) \cdot \text{avg_aligned}_t$$

Following Chappell Jr et al. (2004b), the weighting parameter λ is set to 0.4. The measure ranges from -1 for a completely misaligned committee to 1 for a fully aligned committee. Vertical dotted lines indicate presidential transitions. In addition to changes in presidency, significant shifts in alignment often result from the appointment of a new Chair.

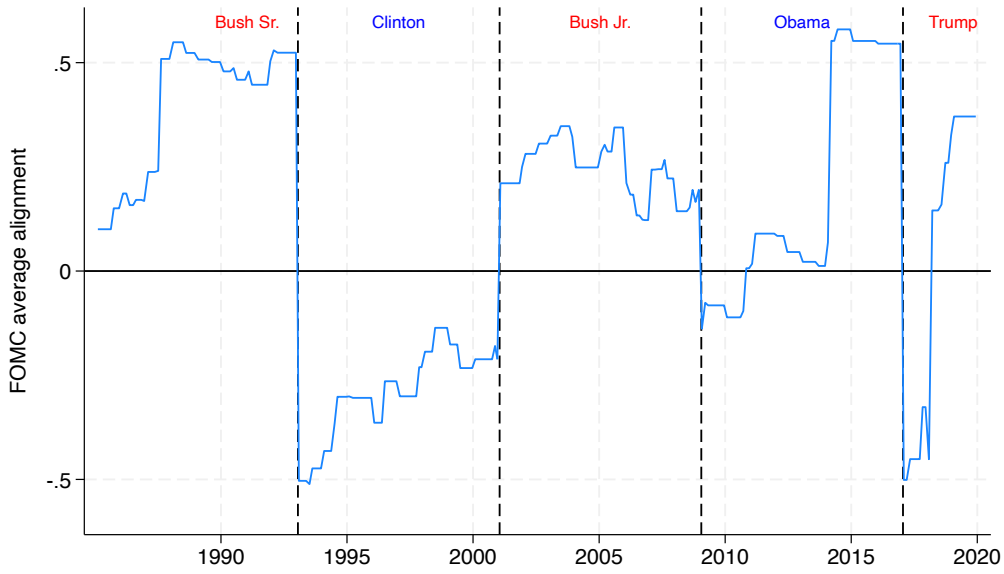


Figure 6: Effect of committee political alignment on Federal Funds Rate

This figure illustrates the impact of an exogenous change in the alignment between the FOMC and the U.S. President on the federal funds rate, using the Greenbook's optimal recommendation as a counterfactual.
The treated unit is the politically aligned committee, which experiences a shift in alignment following a presidential transition. The Greenbook provides interest rate recommendations based on well-established academic rules, making it an apolitical benchmark for monetary policy decisions.
Since committee political alignment evolves over time due to member turnover and the annual rotation of voting rights among regional Federal Reserve Bank Presidents, the treatment is defined as the difference in average alignment over the two years following a presidential election compared to the two years preceding it. The estimated effects are obtained using a stacked Difference-in-Differences approach, applied to four presidential transitions. The empirical specification is given by:

$$ffr_t^j = \gamma_t + \alpha_{cj} + \sum_{k=-6}^{4} \beta_k \cdot \text{change alignment}_{jc} \cdot \mathbf{1}_{tck} + \epsilon_{ict}$$

where j denotes the treatment group, with the actual federal funds rate as the dependent variable and the Greenbook's optimal federal funds rate as the control. The variable t represents the meeting-level time index, while k indicates semesters relative to the election, where zero corresponds to the semester of the transition. The specification includes fixed effects for meetings and for the interaction of group (Greenbook or Committee) and cohort. The x-axis represents semesters relative to the presidential election, with zero marking the semester of the transition. The dots in the figure represent the estimated effect of a one-point change in committee alignment on the differential response of interest rate setting between the FOMC and the Greenbook benchmark. The confidence intervals are set at the 95 percent level. Standard errors are clustered at the meeting level.

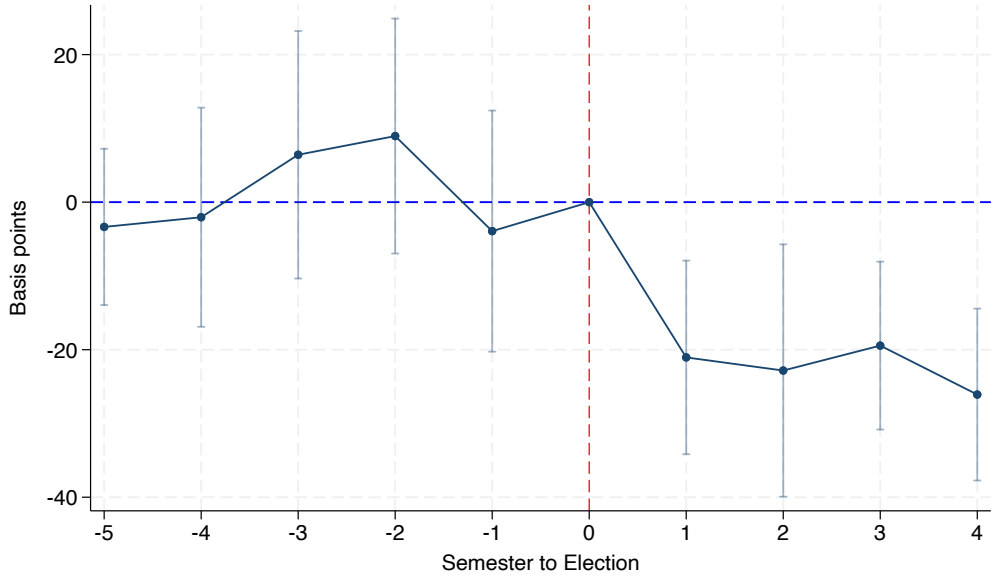


Figure 7: Quarterly-cumulated deviations of the Federal Funds Rate from Greenbook recommendations

This figure presents the evolution of the cumulative quarterly deviations of the federal funds rate from the interest rate prescriptions provided by the Federal Reserve staff in the Greenbook.

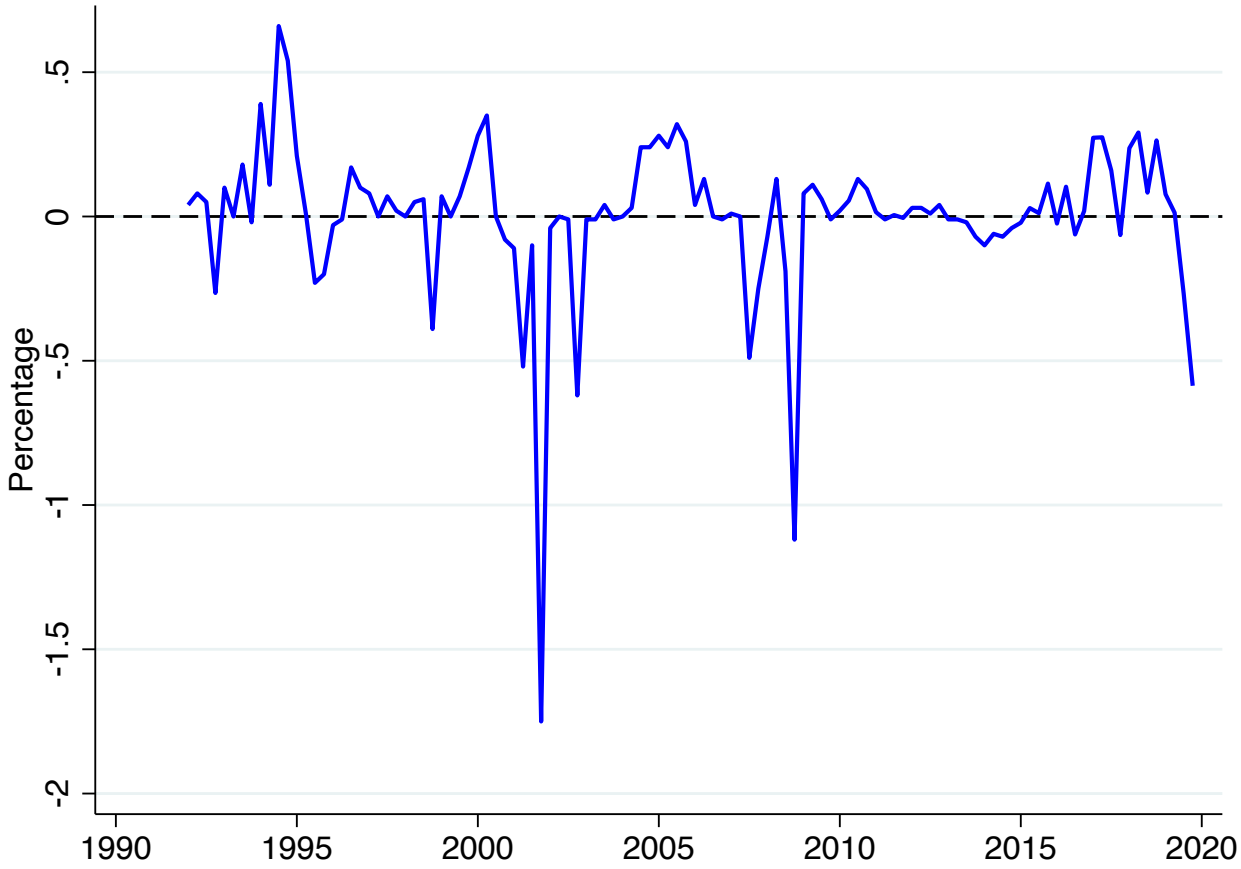
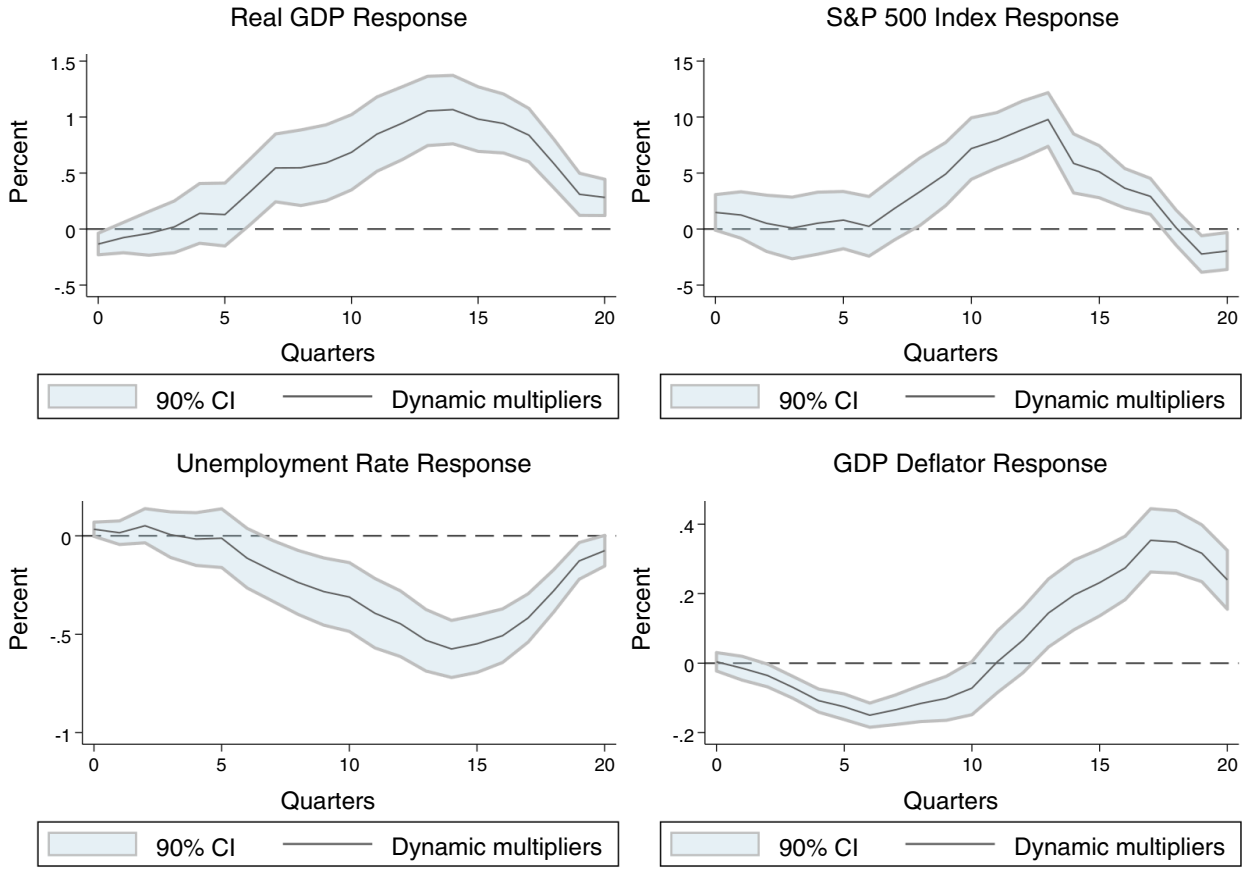


Figure 8: Impulse response functions to FOMC deviations from Greenbook recommendations

This figure presents the impulse response functions estimated using a local projections approach to analyze the dynamic effects of monetary policy shocks on key macroeconomic and financial variables. The shocks are defined as deviations of the FOMC's interest rate decisions from the optimal recommendations provided in the Greenbook.
The impulse responses are estimated using the following specification:

$$y_{t+h} = \alpha_h + \beta_h \text{mp_shock}_t + \sum_{j=1}^{8} \Gamma_{h,j} X_{t-j} + \epsilon_{t+h},$$

where: y_{t+h} is the dependent variable of interest at forecast horizon h, including GDP, GDP deflator inflation, the S&P 500 index, and the unemployment rate. mp_shock_t represents the FOMC interest rate deviation relative to the Greenbook at time t. X_{t-j} consists of control variables including the past eight quarters of GDP, inflation, interest rates, stock market index, 10-year government bond yields, and unemployment in the preceding eight quarters. α_h is a horizon fixed effect.
The estimated coefficients β_h capture the response of each macroeconomic variable up to 20 quarters after a 25 basis point expansionary shock. Confidence intervals in light blue are set at 90 percent.



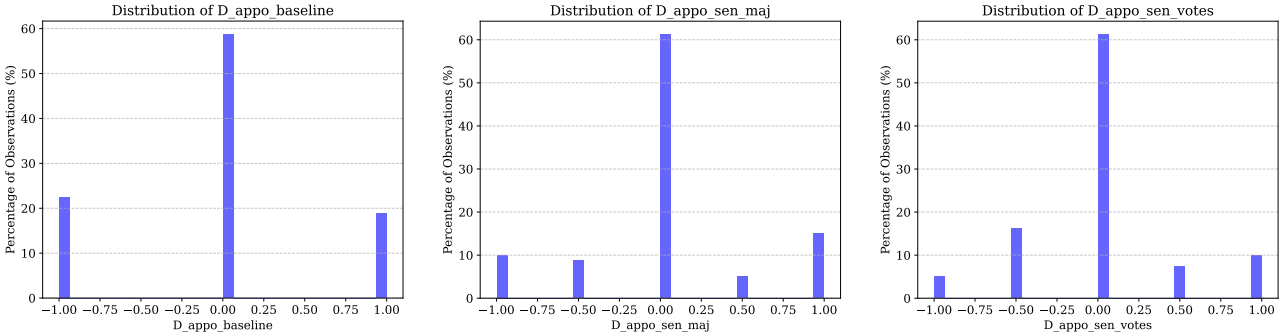
A Appendix

A.1 Additional measures of political affiliation

In addition to the measure described in Section 3.1, which classifies governors' party affiliation using the appointing U.S. President and the Senate confirmation vote, I construct two alternative indicators based on Board of Governors appointments. The first, *D_appo_baseline*, equals 1 for individuals appointed by a Democratic president, −1 for those appointed by a Republican president, and 0 for regional Federal Reserve presidents. The second indicator, *D_appo_sen_majority*, also considers the Senate majority: it equals 1 (−1) when the President and the Senate majority belong to the same party at the time of the appointment, 0.5 (−0.5) when they differ, and 0 for regional Federal Reserve presidents. These measures can be applied farther back in time, whereas detailed Senate roll-call votes are available online only from the 1980s. Figure A1 reports the distribution of these 3 measures.

Figure A1: Distribution of political affiliation based on Board of Governors' appointments

The figures illustrate the distribution of political affiliation with respect to the Democratic Party. Each measure ranges from −1 (full Republican) to 1 (full Democratic). Figure (a) shows the distribution based on Board appointments only; (b) accounts for Senate majorities; and (c) incorporates Senate vote shares (see Section 3.1).



(a) Baseline appointments **(b)** With Senate majority **(c)** With Senate votes

Furthermore, I also report in Table A1 the correlation among all the measures I have built. Correlations are positive and high, ranging from 0.55 to 0.93. In the main analysis I use as reference measures for political affiliation *D_contributions* and *D_connections*.

Table A1: Correlation matrix for political-affiliation measures

Pairwise Pearson correlations among all the measures of FOMC members' political affiliation, each defined relative to the Democratic Party.

	D_car	D_appo_baseline	D_appo_sen_maj	D_appo_sen_votes	D_contributions	D_connections	D
D_car	1.00						
D_appo_baseline	0.61	1.00					
D_appo_sen_maj	0.55	0.90	1.00				
D_appo_sen_votes	0.60	0.90	0.90	1.00			
D_contributions	0.58	0.63	0.55	0.59	1.00		
D_connections	0.93	0.81	0.77	0.85	0.65	1.00	
D	0.86	0.81	0.75	0.81	0.88	0.93	1.00

A.2 List of politically connected roles

This Table reports the list of all the job titles that I consider as politically affiliated, as classified in Section 3.1.

Politically-Affiliated Public Roles	
Candidate, U.S. House of Representatives	Candidate, U.S. Senate Primaries
Assistant Secretary of the Treasury for Economic Policy	Chairman, Council of Economic Advisers
Richard Nixon's Coordinator on Domestic Policy in the Nomination Campaign	Director, National Economic Council
Assistant to the President for Economic Policy	Staff Economist, Council of Economic Advisers
Fred Thompson's Senior Economic Advisor	Commissioner, Commodity Futures Trading Commission
Member, Bill Clinton's Council of Economic Advisers	Director, Office of Management and Budget (Clinton Administration)
Founding Director, Congressional Budget Office (CBO)	Member, National Commission on Fiscal Responsibility and Reform
Director, Congressional Budget Office	Chair, Quadrennial Advisory Council on Social Security
Deputy Director, Division of Research and Statistics, Federal Reserve Board	Chairman, Public Company Accounting Oversight Board (PCAOB)
Staff Director, U.S. Senate Banking, Housing, and Urban Affairs Committee	Director of District Office for Rep. Bill Frenzel
Chairman, President's Council of Economic Advisers	Special Assistant to the President for Economic Policy
Executive Secretary, National Economic Council	Member, President's Council of Economic Advisers (CEA)
Assistant to the President for International Economic Policy	Deputy Assistant to the President for Economic Policy

Continued on next page

Politically-Affiliated Public Roles (continued)	
Assistant Secretary for Economic and Business Affairs, U.S. Department of State	Attorney, Antitrust Division, U.S. Department of Justice
Special Assistant to the Undersecretary for International Trade, U.S. Department of Commerce	Chief Employment Counsel, Committee on Labor & Human Resources, U.S. Senate
Deputy Secretary of the Treasury	Commissioner of Financial Regulation for the State of Maryland
Candidate for Vice Chair for Supervision, Federal Reserve Board	Senior Adviser to the Treasury Secretary
Staff, National Economic Council	Secretary of the Treasury
Special Assistant to the Secretary of the Treasury for Banking Legislation	Deputy Assistant Secretary of the Treasury for Financial Institutions Policy
Secretary of the Treasury for Domestic Finance	Assistant Secretary of the Treasury for International Affairs
Under Secretary of the Treasury for Domestic Finance	Legislative Assistant to Senator Richard Schweiker
Intern for Senator Bob Dole	Counsel, U.S. House Committee on Transportation and Infrastructure
Counsel, Committee on Government Reform and Oversight	Director of Congressional and Intergovernmental Affairs, FEMA
Deputy Assistant Secretary and Policy Advisor, Department of Homeland Security	Deputy National Economic Adviser
Deputy Assistant to the President	Under Secretary of the Treasury for International Affairs
Chair, White House Competition Council	Senior Adviser on Finance and Development, U.S. Treasury Department
Senior Economist, Obama Administration's Council of Economic Advisers	Special Assistant to Secretary Robert Rubin

Continued on next page

Politically-Affiliated Public Roles (continued)	
Deputy Assistant Secretary of the Treasury for Community Development Policy	Special Advisor to President Bill Clinton
Volunteer Member, Joe Biden presidential Transition Agency Review Team	U.S. Executive Director, World Bank
Chief Economist to U.S. Labor Secretary Hilda L. Solis	Deputy Secretary, U.S. Department of Labor
Director, Council on Wage and Price Stability	Assistant Secretary for Policy Development and Research, HUD
Senior Staff Economist, Council of Economic Advisers	Deputy U.S. Trade Representative (Ambassador Rank)
Advisor to President Obama (2004 U.S. Senate Race)	Senior Economic Policy Adviser, 2008 Obama presidential Campaign
Member, President Reagan's Council of Economic Advisers	Special Assistant to Secretary W. Michael Blumenthal, U.S. Treasury
Candidate, Special Election for U.S. Senate (Texas)	Candidate, U.S. Senate Regular Election
Candidate for Governor of California	Assistant Secretary of the Treasury for International Economics and Development
Head, Russian-American Enterprise Fund	Deputy Assistant Secretary for International Monetary and Financial Policy
Senior Deputy Assistant Secretary for International Affairs	Assistant Secretary for International Affairs

A.3 Chat GPT API procedure to extract interest rates and policy preferences

I begin by analyzing the Bluebook, a document prepared by the Board of Governors' staff ahead of each FOMC meeting. This document typically outlines three alternative policy stances, varying in their degree of monetary accommodation. Using the ChatGPT API, I categorize these alternatives from most expansionary to most contractionary. Usually, different alternatives correspond to distinct policy rate recommendations. However, in some situations—particularly near the zero lower bound—differences across alternatives may primarily reflect risk-management considerations or language nuances rather than explicit interest rate differences.

Chappell Jr et al. (2004a) detail a method to derive policy preferences by analyzing FOMC transcripts. They employ Research Assistants to derive the preferred policy for each FOMC member, by analyzing the "policy go-round" section within each meeting. The "policy go-round" is usually the last section of each FOMC meeting, during which, following the statement proposed by the Chairman (or sometimes a technical report of the staff), each member explain his own point of view about the correct monetary policy to be adopted. During this discussion, members commonly reference a specific Bluebook alternative, express a preferred interest rate, or endorse another member's previously stated position. To systematically capture individual policy preferences, I reviewed all transcripts, identified the relevant statements from the policy go-round, and compiled these individual statements into an Excel spreadsheet, which was then analyzed using an LLM.

First I report the python script used to classify monetary policy alternatives presented in the Bluebook, and the monetary policy directive approved by the Committee. I will use these classified monetary policy alternatives as benchmark to categorize the individual statements.

```
1  def analyze_policy_and_directive(policy_text, directive_text, date):
2      prompt = f"""
3      You are analyzing monetary policy alternatives from a Federal Reserve FOMC
       ↪  meeting. The provided text describes different policy alternatives
       ↪  (typically labeled as A, B, C, D, or variations etc.) and their respective
       ↪  implications.
4
5      Your task is to:
```

```
1. Identify the policy alternatives (e.g., A, B, C, etc.) and their implied interest rate stance.
2. Provide a brief but precise policy description.
3. Compare each alternative with the domestic policy directive and determine which one is the most similar.

---
Instructions for Extraction:
- For each policy alternative (A, B, C, D, etc.), extract:
  - The implied interest rate stance (e.g., "hold", "cut 25 bp", "raise 50 bp", etc.).
  - A clear, structured description of the policy.

- For the domestic policy directive:
  - Determine if it is most similar to policy A, B, or C (or another alternative). To do this, first analyze the interest rate decision. If the decision aligns with the rate of a specific alternative, that should be considered the preferred one.
  - Explain key similarities and differences between the directive and the alternatives.

---
Example Input:
Policy Alternatives:
{policy_text}

Domestic Policy Directive:
{directive_text}

---
Expected JSON Output Format:
Ensure your response is strictly in the following JSON format:
{{
    "A": {{"interest": "...", "policy": "..."}},
```

```
        "B": {{"interest": "...", "policy": "..."}},
        "C": {{"interest": "...", "policy": "..."}},
        "D": {{"interest": "...", "policy": "..."}},
        "Other": {{"interest": "...", "policy": "..."}},  # Use this category for anything outside A, B, C, D
        "mon_pol_directive_interest": "...",
        "mon_pol_proposal": "..."
    }}
    Only return valid JSON without extra explanations or formatting.
    """
```

Then, I report the python function I used to classify each individual policy preference and preferred interest rate, taking as input the output file for each meeting generated by Bluebook analysis.

```
def analyze_policy_preferences(text, meeting_date, policy_data, previous_statements, speaker_name):
    """
    Sends a request to OpenAI's GPT-4o to extract monetary policy preferences from the given FOMC text.

    Parameters:
        text (str): The FOMC meeting comment from a participant.
        meeting_date (str): The date of the FOMC meeting.
        policy_data (dict): A dictionary containing the policy alternatives and the adopted directive policy.
        previous_statements (list): A list of previous statements in the same meeting for reference.
        speaker_name (str): Name of the speaker.

    Returns:
        dict: A dictionary with extracted policy preference, interest rate preference, and sentiment classifications.
    """

```

```
    prompt = f"""
    You are an expert in monetary policy analysis. Your task is to extract key information from an FOMC meeting discussion.

    Given the following transcript excerpt, determine the participant's preferred policy stance and interest rate.

    ---
    **Context for {meeting_date.strftime('%Y-%m-%d')}:**
    - The adopted monetary policy directive: {policy_data.get("mon_pol_proposal", "Unknown")}
    - The implied interest rate for the directive: {policy_data.get("mon_pol_directive_interest", "Unknown")}
    - Policy alternatives and their interest rates:
      - A: {policy_data.get("A_policy", "Unknown")} ({policy_data.get("A_interest", "Unknown")})
      - B: {policy_data.get("B_policy", "Unknown")} ({policy_data.get("B_interest", "Unknown")})
      - C: {policy_data.get("C_policy", "Unknown")} ({policy_data.get("C_interest", "Unknown")})
      - D: {policy_data.get("D_policy", "Unknown")} ({policy_data.get("D_interest", "Unknown")})
      - Other: {policy_data.get("other_policy", "Unknown")} ({policy_data.get("other_interest", "Unknown")})

    ---
    **Participant: {speaker_name}**
    **Statement:**
    {text}

    ---
    **Previous Statements in This Meeting (for Reference):**
    {previous_statements}

```

```
---
**Instructions:**
1. Identify which policy (A, B, C, D, or Other) the participant's statement is closest to.
   - If the implied rate is different from any other, choose the closest in terms of rates but comment that it is different and set the implied rate later.
2. Determine the preferred interest rate mentioned or implied. It is the interest rate now, not a potential future or implied rate. It is what he wants to do right now, so if they mention what is the ideal in the future or next year, it is not what we want to keep.
3. Compare it to the policy directive:
   - A is more expansionary than B, which is more expansionary than C, which is more expansionary than D.
   - If their stance is the same as the directive, classify as "same".
   - If they prefer a more expansionary stance, classify as "expansionary" or "very expansionary", depending on strength.
   - If they prefer a more contractionary stance, classify as "contractionary" or "very contractionary", depending on strength.
4. Extract sentiment from their language (contractionary or expansionary, based purely on words).
5. Calculate `diff_rate`:
   - Subtract the **directive interest rate** from the **preferred interest rate**.
   - Express it in **basis points (bp)** (e.g., if the directive is 6\% and they want 5.5\%, `diff_rate = -50bp` or if directive says cut 50 and they want to cut 25 is +25 bp, if directive says hold and they want to raise 25 say 25bp).

---
**Expected JSON Output Format:**
{{
    "pref_policy": "...",
    "pref_rate": "...",
```

```
        "alternative_orientation": "...",
        "sentiment_rel_to_directive": "...",
        "diff_rate": "..."
    }}
    """
```

This procedure generates as output two variables for each individual during every FOMC meeting: (i) $exp_policy_preference_{it}$, equal to 1 if a member prefers a more expansionary stance then the approved monetary policy directive, 0 if in agreement, and -1 if more contractionary. (ii) $preferred_rate_{it}$ capturing individual preferred rate.

A.4 Placebo test for change in policy preferences around elections

In Section 4.1, I use presidential elections that result in a change in the party of the U.S. President as an exogenous variation in political alignment for FOMC members. Using a stacked Difference-in-Differences framework, I estimate the impact of political alignment on individual monetary policy preferences.

However, presidential elections are large-scale events that can lead to broad political and economic changes, potentially influencing FOMC behavior through channels other than political alignment. To address this concern, I conduct a placebo test using elections in which the incumbent president is re-elected—thus, there is no change in presidential party affiliation. In my dataset, there are three such elections in 1997, 2005, and 2013.

For this test, I replicate the empirical strategy used in (4), centering time windows around each re-election and estimating the following specification:

$$exp_policy_{ict} = \alpha + \beta \cdot aligned_{ic} \cdot Post_{tc} + \gamma_{ic} + \gamma_t + \epsilon_{ict} \tag{15}$$

In this version, I replace the change in alignment of (4) with a time-invariant alignment indicator interacted with a post-election dummy.[11] The coefficient β_{DID} captures whether aligned individuals are more likely to favor expansionary policy after the election, even when there is no change in presidential party.

Table A3 presents the results. Column (1) reports estimates for all FOMC members, while

[11] In this analysis, alignment is time-invariant within each cohort, since the President's party remains the same throughout the cohort window.

Column (2) restricts the sample to Governors only. All regressions include individual-by-President and meeting fixed effects. Standard errors are two-way clustered at the meeting level and at the individual-by-President level.

None of the coefficients in Table A3 are statistically significant. This suggests that during elections where the incumbent President remains in office, FOMC members do not systematically adjust their voting behavior based on political alignment, despite potential changes in policy direction or administrative priorities. This finding reinforces the causal interpretation presented in Section 4.1.

Interestingly, although not statistically significant, the signs of the coefficients in the placebo analysis are reversed compared to those in the main results. This pattern indicates that aligned members are more likely to support expansionary policy *before* an election, rather than after. In contrast, misaligned members tend to counteract such measures pre-election. This behavior suggests that FOMC members may strategically adjust their votes prior to an election—aligned individuals potentially aiming to boost the incumbent's re-election prospects, while misaligned individuals may seek to counteract them.

Once the incumbent is re-elected, however, this partisan behavior appears to moderate. Overall, this evidence supports the story that the observed shifts in monetary policy preferences are not driven by a reaction to different policy agendas, but rather reflect strategic electoral considerations, particularly in the lead-up to an election.

Table A3: Placebo Test: effect of political alignment on individual policy preferences around elections with no change in President

This table reports results for placebo regression (15). The dependent variable is the monetary policy preference toward a more expansionary alternative. Political alignment is measured using two alternative indicators: campaign contributions (Panel A) and political connections (Panel B). The sample includes three presidential elections in which the party of the President does not change and spans a four-year window around each election. Standard errors are double clustered at individual-President and meeting levels. Columns (1) reports estimates for all the individuals, columns (2) for governors only. Symbols *, **, and *** denote significance at the 10%, 5%, and 1% levels, respectively.

	Exp. Policy (All Members)	Exp. Policy (Governors Only)
Panel A: Political Contributions		
Post × Alignment	-0.0352	-0.0352
	(0.0393)	(0.0393)
Panel B: Political Connections		
Post × Alignment	-0.0837	-0.0473
	(0.0558)	(0.0534)
Individual × election Fixed Effects	Yes	Yes
Meeting Fixed Effects	Yes	Yes
Observations	1438	390

A.5 Political alignment and absolute forecasts errors

One potential explanation for the effect of political alignment on FOMC members' behavior is that politically aligned FOMC members might behave differently because their connections to the current administration grant them access to privileged information—such as insights into future policy decisions or unreleased economic data. If this were true, I would expect their forecasts to be more accurate. To test this hypothesis, I re-estimate the specification from (5), but instead I focus on forecast accuracy. Specifically, I examine whether political alignment influences the absolute forecast errors for real GDP growth and inflation. The empirical specification is:

$$abs(expectation_error^{y}_{ic,t,t+h}) = \alpha + \beta_{DID} \cdot (change_alignment_{ic} \times Post_{tc}) + \gamma_{ic} + \gamma_{t} + \gamma_{hc} + \epsilon_{icth}, \tag{16}$$

where i represents the individual, c denotes the cohort, t refers to the meeting, and h indicates the forecast horizon. All regressions include individual-cohort and meeting fixed effects. Standard errors are double-clustered at the meeting and individual-U.S. President levels. The results, presented in Table A4, show that aligned members actually exhibit larger absolute forecast errors, statistically significant for GDP growth. This finding provides no evidence of an informational advantage due to political alignment. Instead, it suggests that aligned members may be strategically adjusting their forecasts, consistent with behavior resembling "cheap talk."

Table A4: Effect of political alignment on absolute forecast errors for real GDP growth and inflation

This table reports estimates for (16). The dependent variable is the absolute forecast error at different horizons. Political alignment is measured using two alternative indicators: campaign contributions (Panel A) and political connections (Panel B). The sample includes four presidential elections with a change in party and spans a four-year window around each election. Regressions include individual-cohort and meeting fixed effects. Symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	GDP Absolute Forecast Error	Inflation Absolute Forecast Error
Panel A: Political Contributions		
Change Alignment × Post	0.0627**	0.0116
	(0.0240)	(0.0113)
Panel B: Political Connections		
Change Alignment × Post	0.0604**	0.0267
	(0.0281)	(0.0184)
Individual Fixed Effects	Yes	Yes
Meeting Fixed Effects	Yes	Yes
Horizon Fixed Effects	Yes	Yes
Observations	1505	1505

A.6 Historical analysis

Although monetary-policy instruments have evolved over time, it is still possible to run a long time-series analysis beginning with the modern formation of the FOMC in 1936, when the Committee took on its present structure. For every meeting since 1936 I observe each voter's decision, noting whether she dissented and the direction of any dissent. Hence, I extend three measures of political affiliation till 1936, using the same approach described in Sections 3.1 and A.1. Figure A2 shows the evolution over time of the average political affiliation according to each of the three measures independently.

I then estimate the historical specification with the two-way fixed-effects model in equation (3), including individual and meeting fixed effects. The resulting coefficients for each alignment measure are reported in Table A5.

Figure A2: Average political affiliation of the FOMC over time (historical sample)

The figure shows the evolution over time of the FOMC's average political affiliation defined relative to Democratic party, based on three different measures. Each measure spans from -1 (full Republican) to 1 (full Democrat). The black dotted line represents the measure derived from the first Board of Governors appointment, while the black dashed line reflects political affiliation based on appointments and senate majorities at the time of the appointment as described in A.1. The red solid line shows a measure based on public roles before the FOMC as derived in Section 3.1. Periods of Republican presidencies are shaded in red, and Democratic presidencies in blue.

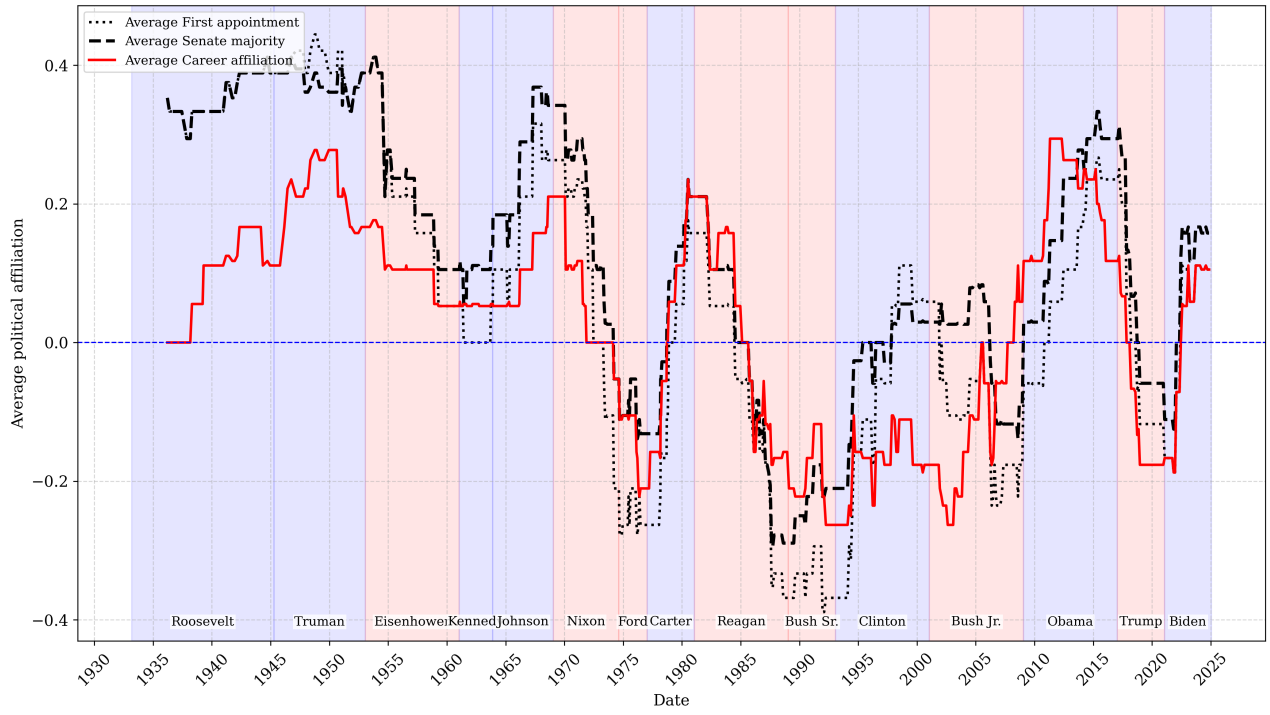


Table A5: Two-way fixed effects regressions of individual policy dissents on political alignment

This table shows how political alignment—based on Board of Governors' appointments (Panel A), Board appointments and senate majorities (Panel B) and previous public-politically related roles (Panel C)—is related to FOMC members' monetary policy preferences and votes.
The dependent variables is *Expansionary Dissent*, that takes a value of 1 if a member expressed a preference for a more expansionary policy, 0 if they preferred maintaining the current stance, and -1 if they favored a tighter policy in a given meeting at time t. Columns (1) include all FOMC members, while columns (2) restricts to governors only. The empirical specification is given by:

$$y_{it} = \alpha + \beta \cdot aligned_{it} + \gamma_i + \gamma_t + \epsilon_{it},$$

where i represents individual FOMC members and t denotes the meeting. The variable $aligned_{it}$ ranges from -1 to 1, capturing the degree of political alignment. γ_i and γ_t respectively represent individual and meeting fixed effects. Standard errors are double-clustered at the meeting and individual-U.S. President levels. Symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	Exp Dissent (All members)	Exp Dissent (Governors only)
Panel A: Appointments (baseline)		
alignment	0.0118*	0.0158*
	(0.00666)	(0.00951)
Panel B: Appointments and Senate majority		
alignment	0.0207**	0.0260**
	(0.00801)	(0.0117)
Panel C: Public career		
alignment	0.0240***	0.0206**
	(0.00767)	(0.00857)
Individual fixed effects	Yes	Yes
Meeting fixed effects	Yes	Yes
Observations	8724	4532

Political alignment—regardless of how it is measured—is linked to a higher likelihood of dissenting in an easier (more expansionary) direction, and the coefficients are both statistically and economically significant. These historical results, which span nearly nine decades and 15 presidencies, confirm the main findings and dissipate concerns that they might be driven by the limited number of elections examined in the baseline analysis.

A.7 Robustness for different political alignment definitions

I now repeat the main specifications from Sections 4.1 and 4.2 using alternative measures of political alignment as defined in Appendix A.1. I use three different definitions of political affiliations that rely on appointments to the Board of Governors and using Senate votes and majorities, specifically *D_appo_baseline*, *D_appo_sen_majority*, and *D_appo_sen_votes*, a measure looking at the public politically-related career of FOMC members before joining the FED *D_car*; and finally a composite measure that is given by the average of the latter *D*.

Specifically, I replicate results from regressions (3), (4), (5), (10) and (11), and I report the Tables of the results.

Table A6: Change in individual policy decisions around changes in political alignment

This table shows how five different measures of political alignment—based on appointing president only (Panel A), appointment and Senate majority (Panel B), appointment and Senate vote (Panel C), career background (Panel D), and average (Panel E)—are related to FOMC members' monetary policy preferences and dissenting votes, as presented in Sections 3.1 and A.1.
The dependent variables are *Expansionary Policy* and *Expansionary Dissent*. *Expansionary Policy* takes a value of 1 if a member expressed a preference for a more expansionary stance, 0 if they favored maintaining the current stance, and –1 if they preferred a tighter stance at meeting t. *Expansionary Dissent* follows the same coding for dissenting votes.
Columns (1) include all FOMC members; column (2) restricts the sample to voting members only; and column (3) uses all members for the dissent analysis. The specification is:

$$y_{it} = \alpha + \beta \cdot aligned_{it} + \gamma_i + \gamma_t + \epsilon_{it},$$

where i indexes individuals and t indexes meetings. $aligned_{it} \in [-1, 1]$ measures the degree of political alignment. γ_i and γ_t are individual and meeting fixed effects. Standard errors (in parentheses) are double-clustered by meeting and by President. *, **, and *** denote significance at the 10%, 5%, and 1% levels.

	Exp Policy (All members)	Exp Policy (Voting)	Exp Dissent (All members)
Panel A: Appointment-baseline			
alignment	0.0509***	0.0347*	0.0000519
	(0.0186)	(0.0196)	(0.00754)
Panel B: Appointment-Senate majority			
alignment	0.0823***	0.0576**	0.00951
	(0.0212)	(0.0264)	(0.0100)
Panel C: Appointment-Senate votes			
alignment	0.0697***	0.0394	−0.00118
	(0.0254)	(0.0351)	(0.00905)
Panel D: Career			
alignment	0.0331**	0.0487***	0.0230**
	(0.0163)	(0.0176)	(0.00918)
Panel E: Composite measure			
alignment	0.0425*	0.0644**	0.0173**
	(0.0228)	(0.0248)	(0.00759)
Individual fixed effects	Yes	Yes	Yes
Meeting fixed effects	Yes	Yes	Yes
Observations	3650	2134	2585

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table A7: Change in individual policy decisions around changes in political alignment

This table shows how shifts in political alignment with the U.S. President affect FOMC members' expansionary policy preferences, using a stacked Difference-in-Differences design across five alignment measures: based on appointing president only (Panel A), appointment and Senate majority (Panel B), appointment and Senate vote (Panel C), career background (Panel D), and average (Panel E)—are related to FOMC members' monetary policy preferences and dissenting votes, as presented in Sections 3.1 and A.1.
The dependent variable is *Expansionary Preference*, coded 1 if a member preferred a more expansionary policy, 0 if unchanged, and –1 if preferred a tighter policy at meeting t. Column (1) includes all FOMC members; column (2) restricts to FOMC governors only. Specification:

$$exp_policy_{ict} = \alpha + \beta_{DID}\left(change_alignment_{ic} \times Post_{tc}\right) + \gamma_{ic} + \gamma_t + \epsilon_{ict},$$

with individual-cohort (γ_{ic}) and meeting (γ_t) fixed effects. Standard errors (in parentheses) are double-clustered by meeting and by President. *, **, and *** denote significance at 10%, 5%, and 1%.

	Exp policy (All members)	Exp policy (Governors only)
Panel A: Appointing-President only		
change alignment × Post	0.0551**	0.0305*
	(0.0239)	(0.0163)
Panel B: Appointment and Senate majority		
change alignment × Post	0.112***	0.107***
	(0.0287)	(0.0344)
Panel C: Appointment and Senate votes		
change alignment × Post	0.103***	0.0346
	(0.0387)	(0.0479)
Panel D: Career background		
change alignment × Post	0.0541**	0.0876***
	(0.0207)	(0.0311)
Panel E: Composite measure		
change alignment × Post	0.0756***	0.0988**
	(0.0286)	(0.0434)
Individual × election fixed effects	Yes	Yes
Meeting fixed effects	Yes	Yes
Observations	1658	412

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table A8: Change in individual forecast errors of macroeconomic variables around changes in political alignment

This table shows how shifts in political alignment with the U.S. President affect FOMC members' forecast errors for real GDP and inflation, using a stacked Difference-in-Differences design across five alignment measures: based on appointing president only (Panel A), appointment and Senate majority (Panel B), appointment and Senate vote (Panel C), career background (Panel D), and average (Panel E)—are related to FOMC members' monetary policy preferences and dissenting votes, as presented in Sections 3.1 and A.1.
Forecast errors are defined as the difference between the forecasted and realized values. Columns (1) and (3) include all FOMC members; columns (2) and (4) restrict the sample to Governors only. The specification is:

$$\text{error}^{y}_{icth} = \alpha + \beta_{DID}\,(\text{change_aligned}_{ic} \times \text{Post}_{tc}) + \gamma_t + \gamma_{ic} + \gamma_{ch} + \epsilon_{icth},$$

with individual-cohort (γ_{ic}), meeting (γ_t), and horizon (γ_h) fixed effects. Standard errors (in parentheses) are double-clustered by meeting and by President. *, **, and *** denote significance at the 10%, 5%, and 1% levels.

	GDP Error (All)	GDP Error (Governors)	Infl Error (All)	Infl Error (Governors)
Panel A: Appointing-President only				
change alignment × Post	0.0159	0.0761*	−0.0233*	−0.0503***
	(0.0337)	(0.0420)	(0.0130)	(0.0164)
Panel B: Appointment and Sen maj				
change alignment × Post	0.0462	0.255***	−0.0454***	−0.120***
	(0.0351)	(0.0806)	(0.0100)	(0.0219)
Panel C: Appointment and Sen votes				
change alignment × Post	0.0366	0.138**	−0.0312*	−0.0288
	(0.0285)	(0.0535)	(0.0168)	(0.0234)
Panel D: Career background				
change alignment × Post	0.0391*	0.0594**	−0.0059	−0.0230
	(0.0209)	(0.0251)	(0.0110)	(0.0140)
Panel E: Composite measure				
change alignment × Post	0.0579**	0.109**	−0.0221*	−0.0369
	(0.0233)	(0.0460)	(0.0111)	(0.0219)
Individual × election fixed effects	Yes	Yes	Yes	Yes
Meeting fixed effects	Yes	Yes	Yes	Yes
Horizon × election fixed effects	Yes	Yes	Yes	Yes
Observations	1505	384	1505	384

All regressions include individual-cohort, meeting, and horizon fixed effects.
Standard errors in parentheses, double-clustered by meeting and President.
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table A9: Difference between individual preferred rate and Taylor-Rule implied rate by political alignment

This table estimates how political alignment affects the gap between each FOMC member's preferred federal funds rate (from transcripts) and the Taylor-Rule implied rate based on their own forecasts. Column (1) reports two-way fixed-effects (TWFE) estimates, controlling for individual and meeting fixed effects; Column (2) reports stacked Difference-in-Differences (DiD) estimates, using exogenous shifts in alignment following four presidential elections.
Political alignment is measured through five approaches: based on appointing president only (Panel A), appointment and Senate majority (Panel B), appointment and Senate vote (Panel C), career background (Panel D), and average (Panel E)—are related to FOMC members' monetary policy preferences and dissenting votes, as presented in Sections 3.1 and A.1.
TWFE specification:

$$ffr_{it}^{obs} - \hat{ffr}_{it}^{h} = \alpha + \beta \cdot aligned_{it} + \gamma_i + \gamma_t + \gamma_h + \epsilon_{ith},$$

DiD specification:

$$ffr_{it}^{obs} - \hat{ffr}_{it}^{h} = \alpha + \beta_{DID}\,(change_alignment_{ic} \times Post_{tc}) + \gamma_{ic} + \gamma_t + \gamma_{hc} + \epsilon_{ict}.$$

All regressions include individual (or individual-cohort) and meeting fixed effects. Standard errors (in parentheses) are double-clustered by meeting and by President. *, **, and *** denote significance at the 10%, 5%, and 1% levels.

	$ffr^{obs} - \hat{ffr}$ (TWFE)	$ffr^{obs} - \hat{ffr}$ (DiD)
Panel A: Appointing-President only		
alignment	−0.0548**	
	(0.0268)	
change alignment × post		−0.0595*
		(0.0307)
Panel B: Appointment and Senate majority		
alignment	−0.0783***	
	(0.0281)	
change alignment × post		−0.0940**
		(0.0369)
Panel C: Appointment and Senate vote margin		
alignment	−0.0730***	
	(0.0266)	
change alignment × post		−0.0883**
		(0.0363)
Panel D: Career background		
alignment	−0.0381**	
	(0.0147)	
change alignment × post		−0.0242
		(0.0214)
Panel E: Composite measure		
alignment	−0.0714***	
	(0.0222)	
change alignment × post		−0.0578*
		(0.0293)
Meeting fixed effects	Yes	Yes
Individual fixed effects	Yes	No
Individual × election fixed effects	No	Yes
Horizon fixed effects	Yes	No
Horizon × election fixed effects	No	Yes
Observations	2390	1025

A.8 Voting behavior and career progression

In this section, I investigate whether partisan voting is associated with improved career outcomes. To achieve this, I first construct three measures of career progression as detailed in Section 3.1. Next, I count the total number of "partisan" dissents or instances in which members expressed a preference for monetary policy alternatives differing from the final monetary directive over the entire tenure of each FOMC member. I classify votes as "partisan" if they are expansionary when aligned with the incumbent president or contractionary when misaligned. Using this classification, I create a "net partisan votes" measure for each FOMC member by calculating the difference between their partisan votes and their votes in the opposite direction (for example, when an aligned governor votes for a more contractionary policy).

I then regress each of the three dummy of career outcomes on the "net partisan votes" variable, across individuals

$$career_i = \alpha + \beta \cdot \text{net partisan votes}_i + \epsilon_i \tag{17}$$

Table A10 shows a positive correlation between partisan voting behavior and career outcomes, regardless of whether monetary policy preferences are inferred from meeting transcripts or formal dissenting votes.

Table A10: Cross-sectional regression of career outcomes on voting behavior

This table presents the results of cross-sectional regressions examining the relationship between net partisan voting behaviors and subsequent career outcomes of FOMC members. The dependent variables are binary indicators constructed from data indicating (i) whether a governor was reappointed after their first term expired (*reappointment*), (ii) whether, upon leaving the FOMC, they were appointed to a politically connected public role (*public_car_post*), and (iii) a combined measure capturing either outcome (*combined_car*).
The independent variables measure net partisan votes based either on formal dissenting votes (available from 1936 onward) or monetary policy preferences inferred from meeting transcripts (available from 1992 onward). The regression specification is given by:

$$career_i = \alpha + \beta \cdot \text{net partisan votes}_i + \epsilon_i$$

Symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	public_car_post	reappointment	combined_car
net partisan dissents	0.00271	0.0271**	0.0299**
	(0.0113)	(0.0115)	(0.0151)
Observations	181	181	181
net partisan mp pref	0.0456**	0.00760	0.0456*
	(0.0203)	(0.0185)	(0.0265)
Observations	79	79	79

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

These regressions suggest that FOMC members who more frequently voted or expressed policy preferences aligned with their political party or against the opposing party experienced higher chances of being appointed to other politically connected public roles after finishing their terms or being reappointed to the FOMC. This finding implies that members may extract private career benefits from their voting behavior, suggesting a quid-pro-quo dynamic, where career concerns potentially influence their monetary policy decisions.

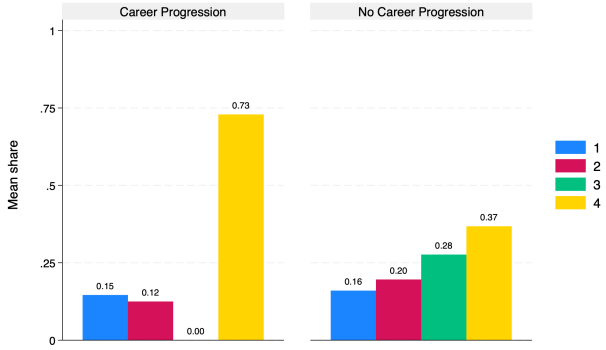
Moreover, I also examine when, during a governor's tenure, strategic voting is most likely to occur. The rationale behind this analysis is that if governors are motivated by potential career advancements, they may be more inclined to engage in such behavior toward the end of their term, when reappointment or future opportunities are most relevant.

To test this, I divide each FOMC member's tenure into four equal periods and calculate the share of strategic dissenting votes cast in each period, relative to their total number of strategic dissents. Figure A3 presents the results. It reveals that partisan voting is more prevalent in the final quarter of a governor's tenure, suggesting strategic behavior intensifies as their term

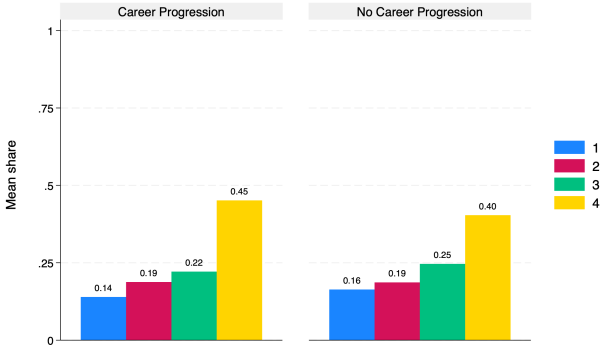
nears its end. This pattern is especially pronounced among individuals who go on to receive career-related benefits, indicating that strategic voting may be used to enhance post-tenure prospects.

Figure A3: Distribution of partisan votes by career outcome measures

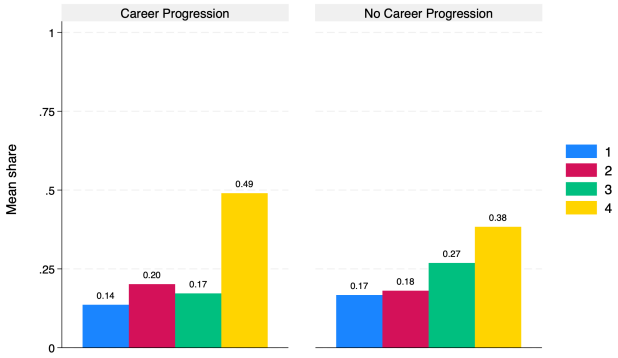
These figures illustrate the distribution of partisan voting behavior throughout the tenure of FOMC members. Each governor's tenure is divided into four equal periods, and for each period, I calculate the proportion of their total partisan dissents relative to their entire tenure. The left histograms present the average share of partisan dissents for individuals who subsequently received career benefits after their initial mandate at the Fed. The right histograms show the same distribution for members who did not experience career progression. Each panel represents mean shares of partisan dissents per period, based on voting preferences inferred either from formal dissenting votes or from meeting transcripts (see Section 3.1).



(a) Public career appointments



(b) FOMC reappointment



(c) Combined career measure

A.9 Greenbook narrative evidence

In this section, I include three excerpts from the Greenbook report—the technical analysis prepared by Fed staff before each meeting. These excerpts clearly show that the staff's suggestions for interest rates are based strictly on rules and economic data. This means their recommendations are objective and not influenced by political or partisan preferences.

> *"The inertial version of the Taylor (1999) rule that we use to mechanically set our assumed path for the federal funds rate continues to project a substantial increase over the next three years—one that we recognize is out of line with the expectations of most private forecasters. We assume the federal funds rate will increase 1¼ percentage points this year, ¾ percentage point in 2020, and ¼ percentage point in 2021, reaching 4.5 percent in the fourth quarter of 2021. This trajectory is a bit lower than in the December Tealbook due to a slightly lower projected output gap."*
> – **Tealbook, January 2019**

> *"The federal funds rate continues to be set according to the prescriptions of an inertial version of the Taylor (1999) rule."*
> – **Tealbook, January 2015**

> *"Reflecting the larger margin of slack in this scenario, core PCE inflation is 2 percent in 2006 and falls to 1½ percent in 2007. In implementing the scenario under the Taylor rule, we assume that the Committee considers the NAIRU to be 5 percent, which means that it perceives labor and product markets to be tighter than they actually are. As a result, even though inflation in this scenario is lower than the Greenbook forecast, the federal funds rate averages only 12 basis points below the baseline path in 2007. Accordingly, the change in monetary policy has little incremental effect on the economy. By contrast, if the Committee quickly comes to recognize that the NAIRU is 4¼ percent, the federal funds rate under the Taylor rule will average about 60 basis points below its baseline path. This results in GDP growth of 4 percent in 2006 and almost 3½ percent in 2007, while core PCE inflation in 2007 is a little over 1½ percent. ."*
> – **Tealbook, January 2006**

A.10 Greenbook forecasts

A potential concern for my identification strategy is that the party of the U.S. president might influence Greenbook recommendations for optimal interest rates, implying political bias within the Fed staff itself. To address this issue, I verify that forecast errors for real GDP growth and inflation remain stable before and after elections involving a change in the president's party. Specifically, I focus on four U.S. presidential elections since 1992 that resulted in a change of the incumbent party. My independent variable is the party of the U.S. president, D_pres, a dummy variable equal to 1 for Democratic administrations and 0 for Republican administrations. I estimate the following regression, incorporating horizon and election fixed effects:

$$GB_fore_err_y_{t,h,c} = \alpha + \beta \cdot D_pres_t + X_t + \gamma_c + \gamma_c, \tag{18}$$

where X_t represents macroeconomic controls, specifically real GDP growth, inflation, the federal funds rate, and the unemployment rate.

Results are reported in Table A11. The estimates show no significant effect of presidential party changes on Greenbook forecast errors, indicating that the Fed staff's macroeconomic assessments remain consistent regardless of the political environment. This supports the view that the Greenbook provides a credible, politically neutral counterfactual for evaluating FOMC members' behavior.

Table A11: Effect of Presidential Party on Greenbook Forecast Errors

This table presents the results of regressions examining whether the party of the U.S. president influences Greenbook forecast errors for real GDP growth and inflation. The dependent variables are the difference between forecasted and actual values for real GDP growth (*diff_rgdp*) in column (1) and inflation (*diff_i*) in column (2). The main independent variable is D_{pres}, a dummy equal to 1 for Democratic administrations and 0 for Republican ones. The regressions include macroeconomic controls—real GDP growth, inflation, unemployment, and the federal funds rate—as well as horizon and election fixed effects.
Symbols *, **, and *** denote statistical significance at the 10%, 5%, and 1% levels, respectively.

	(1) diff_rgdp	(2) diff_i
D_pres	-0.182	-0.0119
	(0.171)	(0.0564)
Observations	285	285

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

A.11 Interest rate decisions at the FOMC level for different values of λ

In Section 4.3, I show that an increase in committee-level political alignment leads the FOMC to set interest rates below the risk-neutral benchmark provided by the Greenbook. To construct the committee alignment measure, I use a weighted average of the Chair's alignment and the average alignment of the remaining voting members, as defined in (12). In the baseline specification, I follow Chappell Jr et al. (2004a) and set the weighting parameter to $\lambda = 0.4$. In this section, I demonstrate that the main result is robust across alternative values of λ. Specifically, I report results using five different weights of the chair: $\lambda = 1/N_{\text{voters}}$, 0.2, 0.6, 0.8, and 1. These values span a range from equal weighting between the Chair and each voting member to a case in which the Chair's alignment solely determines the overall committee alignment($\lambda = 1$).

I estimate again (13), for all these values of λ:

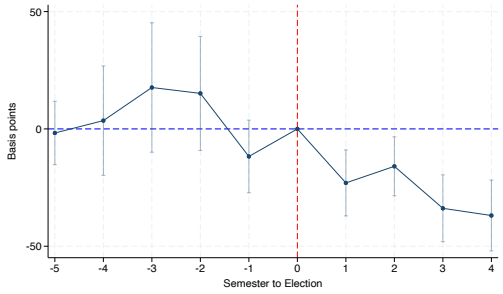
$$ffr_t^j = \alpha + \gamma_t + \alpha_{jc} + \sum_{k=-6}^{4} \beta_k \cdot \text{Treat}_{jc} \cdot \mathbf{1}_{tck} + \epsilon_{jct}$$

In Figure A4, I present the results across all values of λ. The confidence intervals are

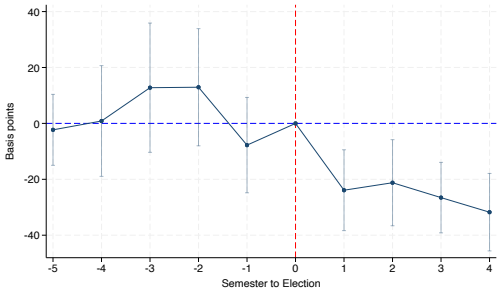
set at the 95 percent level. Regardless of the weighting specification, a positive change in committee alignment consistently leads the FOMC to set interest rates below the Greenbook recommendation. Moreover, all panels show clear parallel pre-trends before the presidential transition, supporting the validity of the identification strategy.

Figure A4: Effect of Committee Alignment on Federal Funds Rate, for different weights λ to the alignment of the chair and the rest of the Committee

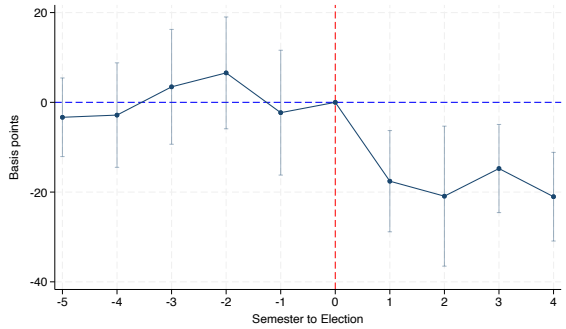
This figure presents estimates for β_k of (13). The dots in the figure represent the estimated effect of a one-point change in committee alignment on the differential response of interest rate setting between the FOMC and the Greenbook benchmark. The confidence intervals are set at the 95 percent level. Standard errors are clustered at the meeting level. Different graphs represent the response for different weights λ attributed to the chair, hence changing the definition of FOMC alignment according to (12).



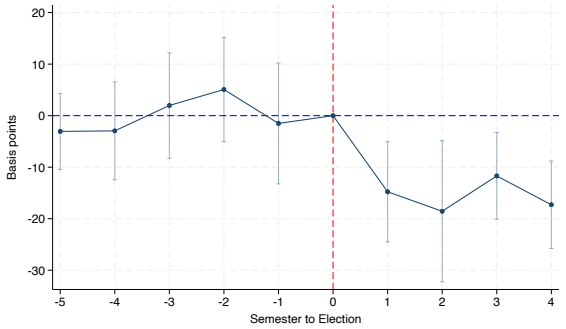
(a) $\lambda = 1/N_{voters}$



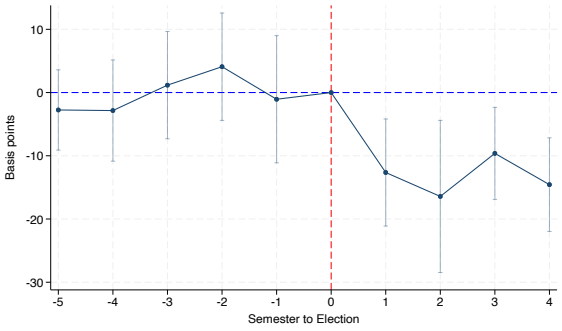
(b) $\lambda = 0.2$



(c) $\lambda = 0.6$



(d) $\lambda = 0.8$



(e) $\lambda = 1$

A.12 FOMC-level Difference-in-Differences with leave one out procedure

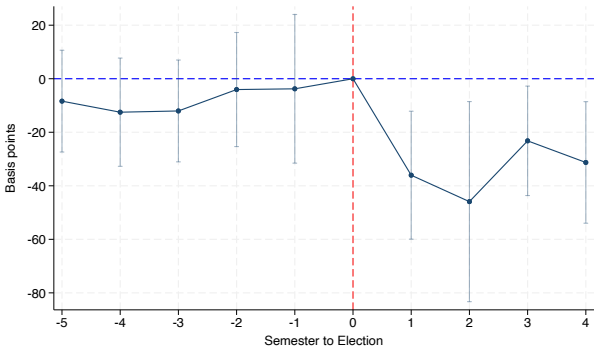
In Section 4.3, I show that an increase in committee-level political alignment leads the FOMC to set interest rates below the risk-neutral benchmark provided by the Greenbook. To identify this effect, I employ a stacked Difference-in-Differences approach centered around U.S. presidential elections in which the ruling party changes. In my dataset, which spans from 1992 to 2019, there are four such elections: Clinton (D) replacing Bush Sr. (R) in 1993, Bush Jr. (R) replacing Clinton in 2001, Obama (D) replacing Bush Jr. in 2009, and Trump (R) replacing Obama (D) in 2017. To ensure that the results are not driven by any single event, I re-estimate (13), sequentially excluding one election at a time:

$$ffr_t^j = \alpha + \gamma_t + \alpha_{jc} + \sum_{k=-6}^{4} \beta_k \cdot \text{Treat}_{jc} \cdot \mathbf{1}_{tck} + \epsilon_{jct}$$

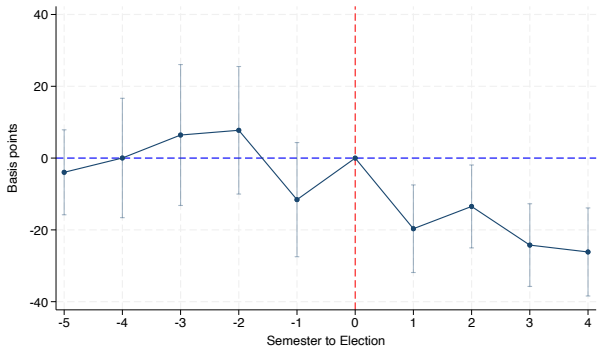
Figure A5 presents the results of these robustness checks, displaying four stacked Difference-in-Differences plots—each omitting one of the four presidential transitions. The confidence intervals are set at the 95 percent level. In all the different specifications, a positive change in committee alignment consistently leads the FOMC to set interest rates below the Greenbook recommendation. Moreover, all panels show clear parallel pre-trends before the presidential transition, supporting the validity of the identification strategy.

Figure A5: Effect of committee alignment on the federal funds rate, excluding one election at a time

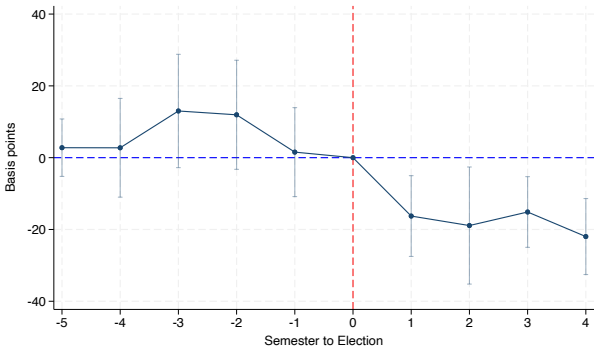
This figure displays estimates of β_k from (13). Each dot represents the estimated effect of a one-point change in committee alignment on the difference between the FOMC's interest rate decision and the Greenbook benchmark. The analysis covers four presidential elections, using a stacked Difference-in-Differences approach that systematically excludes one election at a time. Each panel corresponds to an estimation that omits a different election from the sample. The confidence intervals reflect 95% confidence levels, with standard errors clustered at the meeting level.



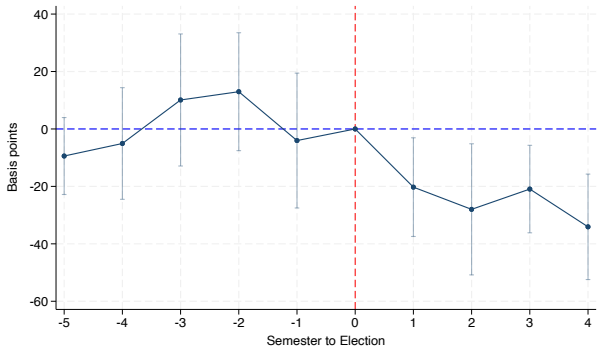
(a) Excluding 1993 election



(b) Excluding 2001 election



(c) Excluding 2009 election



(d) Excluding 2017 election

A.13 Impulse response functions dropping outliers

Figure 7 shows quarterly deviations of FOMC federal funds rates from the Greenbook prescription. Two notable negative spikes emerge: one in the fourth quarter of 2001, following the September 11 terrorist attacks, and another in the fourth quarter of 2008, after the collapse of Lehman Brothers. To verify that these extreme observations are not disproportionately influencing my results, I re-estimate the local projections of (8) and compute the impulse response functions after excluding these outliers.

Figure A6 presents the impulse response functions. The findings are largely similar to those obtained from the full sample (see Figure 8).

Figure A6: Impulse response functions to FOMC deviations from Greenbook recommendations excluding outliers

This figure presents a robustness check of the impulse response functions estimated via local projections, as specified in (8). The estimation excludes FOMC deviations from the Greenbook in the fourth quarter of 2001 and the fourth quarter of 2008. The coefficients β_h capture the response of each macroeconomic variable over a 20-quarter horizon following a 25 basis point expansionary shock. The light blue bands represent 90% confidence intervals.

