

Central Bank Communication with the Polarized Public

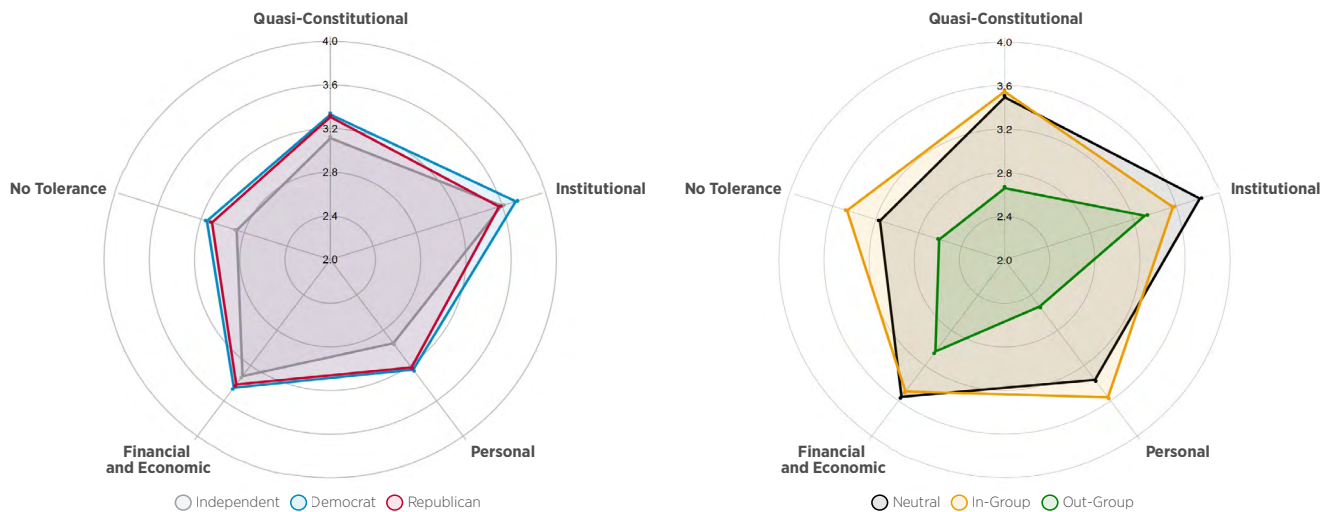
Based on BFI Working Paper No. 2025-37, “Central Bank Communication with the Polarized Public,” by Pei Kuang, University of Birmingham; Michael Weber, University of Chicago; Shihan Xie, University of Illinois Urbana-Champaign

Individuals who view the Fed as politically aligned report higher independence of and trust in the Fed, leading to lower inflation expectations and uncertainty. Strategic communication on institutional structure and policy objectives mitigates perception biases.

The Federal Reserve is designed to operate independently of short-term political pressures to maintain economic and price stability. However, the bank’s perceived neutrality has come under increasing scrutiny in today’s polarized political landscape. With President Trump’s return to office, political pressures on the Fed have intensified,

exemplified by demands for immediate interest rate cuts. These developments raise critical questions about public perceptions of the Fed’s independence, the role of partisanship in shaping trust, and how these perceptions influence macroeconomic expectations.

Figure 1 • Perceived Independence of the Federal Reserve



Note: This figure plots the perceived independence of the Fed, measured on a 1 to 5 scale, where 1 indicates Strongly Disagree and 5 indicates Strongly Agree. Respondents rated the following statements: (1) “The Federal Reserve’s legal foundation strongly protects it from political interference” (Quasi-Constitutional Independence); (2) “The Federal Reserve sets key policies, such as interest rates, without needing approval from government officials” (Institutional Independence); (3) “Appointments to the Federal Reserve’s leadership positions are made based on expertise and qualifications rather than political loyalty” (Personal Independence); (4) “The Federal Reserve controls its own budget and resources, limiting the government’s ability to influence its actions” (Financial and Economic Independence); and (5) “The Federal Reserve will not tolerate higher inflation rates in order to help reduce the real value of the U.S. government’s debt” (No Tolerance). The left panel is categorized by respondents’ political affiliations (Independent, Democrat, Republican); the left panel illustrates the perceived independence across these dimensions based on respondents’ alignment with the Fed (in-group, out-group, or neutral).

In this paper, the authors use a large-scale **survey experiment** to examine public trust in the Federal Reserve. Conducted on the day of President Trump’s 2025 inauguration, the survey includes responses from more than 5,600 U.S. participants, capturing their perceptions of the Fed’s independence across multiple dimensions, including quasi-constitutional, institutional, and financial and economic independence.

The study also incorporates a **randomized controlled trial (RCT)**, where a subset of participants receives targeted information treatments—framed as Fed communication interventions—designed to inform them about the Fed’s institutional structure, policy objectives, and recent performance. The authors assess whether this messaging can enhance trust in the Fed. The survey and experiment reveal the following:

- Political alignment strongly influences perceptions of the Fed’s independence and credibility. Individuals who perceive the Fed as an “in-group” institution—aligned with their own political stance—consistently attribute higher independence scores, whereas those viewing the Fed as an “out-group” rate it as significantly less independent.

- Greater perceived independence and trust in the Fed are associated with lower inflation expectations, a reduced perceived inflation target, and lower uncertainty about inflation and unemployment.
- Providing information about the Fed’s institutional structure, its nonpartisan objectives, and its policy track record significantly increases trust in the institution and reduces perceptions of political bias. These interventions also prompt individuals to place greater weight on official Fed communications when updating their macroeconomic expectations.

This research builds on earlier work documenting partisan variations in trust in the Fed by examining whether targeted Fed communication can reduce those differences. For the Fed and other central banks, actively managing communications is essential to maintain credibility and to ensure effective policy transmission in a politically polarized environment. Future research should examine the influence of different framing techniques, media channels, and messenger credibility on public trust in monetary authorities.

survey experiment: a research method that embeds experimental design within a survey, randomly assigning participants to different conditions to measure causal effects on responses

randomized controlled trial (RCT): a study design where participants are randomly assigned to either a treatment group or a control group to objectively measure the effects of an intervention

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