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The [Federal Reserve](#) prefers to keep the [fed funds rate](#) between 2 and 5 percent. It's the sweet spot that maintains a [healthy economy](#). That's where the nation's [gross domestic product](#) grows between 2 percent and 3 percent annually. It has a [natural unemployment rate](#) between [4.5 percent and 5.0 percent](#). Price increases remain below the Fed's [inflation target](#) of a 2 percent [core inflation rate](#). Find out the [current fed funds rate](#).

But there were times in history where the nation's benchmark interest rate was well above its sweet spot. That was to curb runaway inflation. Since 2008, it's been well below to stimulate economic growth. Once you see how the Fed changed the fed funds rate, you will understand how it manages [inflation](#) and [recession](#).

Highest Fed Funds Rate

The fed funds rate reached a high of 20 points in 1979 and 1980. That was to combat double-digit inflation.

In 1973, inflation tripled, from 3.9 percent to 9.6 percent. The Fed only doubled [interest rates](#) from 5.75 to a high of 11 points. Inflation continued to remain in the double-digits through all of 1974, lasting until April 1975. The Fed kept raising the fed funds rate to a peak of 13 in July 1974, and then dramatically lowered the rate, reaching 7.5 by January 1975.

These sudden changes, known as stop-go [monetary policy](#), confused businesses. They kept prices high to stay ahead of the Fed's interest rate spikes.

That only made inflation worse.

Fed leaders learned that managing inflation *expectations* was a critical factor in controlling inflation itself.

Lowest Fed Funds Rate

The all-time low was 0.25 percent. That's effectively zero. The Fed lowered it to this level on December 17, 2008, the [10th rate cut](#) in a little over a year.

It didn't [raise rates until December 2015](#).

Before this, the lowest fed funds rate was 1.0 percent in 2003, to combat the 2001 recession. At the time, there were fears that the economy was drifting towards [deflation](#).

Fed Funds Rate History

This chart shows the fed funds rate changes since 1971. Its complete history from 1954 to the present is found at the [Federal Reserve Bank of St. Louis](#).

Date	Fed Funds Rate	Event
Fed Chair Arthur Burns (January 1970 - March 1978)		
1971: GDP = 3.3%, Unemployment = 6.0%, Inflation = 3.3%		
Jan	4.5% - 4.0%	Expansion.
Feb	3.5%	
Jul	5.5%	Fed raised rate to fight inflation.
Aug	5.75%	Wage-price controls .
Nov	5.0%	Lowered rate to stimulate growth.
1972: GDP = 5.2%, Unemployment = 5.2%, Inflation = 3.4%		
Mar	5.5%	Raised rate to combat inflation. Confused markets.
Dec	5.75%	
1973: GDP = 5.6%, Unemployment = 4.9%, Inflation = 8.7%		
Jan	6.0%	Raised four times that month.
Feb	6.75%	Lowered to 6.5%, then raised to 6.75%.
Apr	7.25%	Raised for next five months.
Aug	11.0%	OPEC embargo created inflation in October.
1974: GDP = -0.5%, Unemployment = 7.2%, Inflation = 12.3%		
Feb	9%	
Jul	13%	Raised from March to mid-July.
Dec	8.0%	Lowered gradually from July to December.
1975: GDP = -0.2%, Unemployment = 8.2%, Inflation = 6.9%		
Jan	6.5%	Lowered four times in January.
May	5.0%	Lowered five times in five months.
Sep	6.5%	Raised from June through September.
1976: GDP = 5.4%, Unemployment = 7.8% , Inflation = 4.9%		
Jan	4.75%	Lowered from October through January.
Apr	5.5%	Raised in April and May.

Date	Fed Funds Rate	Event
Nov	4.75%	Lowered from July - November.
1977: GDP = 4.6%, Unemployment = 6.4%, Inflation = 6.7%		
Aug	6.0%	Raised from December through August
Oct	6.5%	Raised again in September and October.
Fed Chair William Miller (March 1978 - August 1979)		
1978: GDP = 5.6%, Unemployment = 6.0%, Inflation = 9.0%		
Jan	6.75%	
Dec	10.0%	Raised each month from April through December.
Fed Chair Paul Volcker (August 1979 - August, 1987)		
1979: GDP = 3.2%, Unemployment = 6.0%, Inflation = 13.3%		
Apr	10.25%	
Oct	15.5%	Raised rates 4 points.
Dec	12.0%	Gradual decline through the month.
1980: GDP = -0.2%, Unemployment = 7.2%, Inflation = 12.5%		
Jan	14.0%	Increased rapidly that month.
Mar	20.0%	Raised rates in February and March.
Jun	8.5%	Lowered to 9.5% in May and 8.5% in June.
Sep	12.0%	Rates increased to 10.0% in August and 12.0% in September
Dec	20.0%	Raised steadily until mid-December.
Dec 29	18.0%	Lowered two points.
1981: GDP = 2.6%, Unemployment = 8.5%, Inflation = 8.9%		
Jan	20.0%	Reagan took office. Volcker raised rates again.
Apr	16.0%	Lowered 4 points.
May	20.0%	Raised 4 points.
Dec	12%	Lowered 8 points.
1982: GDP = -1.9%, Unemployment = 10.8%, Inflation = 3.8%		
Apr	15.0%	Raised 3 points.
Dec	8.5%	Lowered nine times over nine months.
1983: GDP = 4.6%, Unemployment = 8.3%, Inflation = 3.8%		
Aug	9.66%	Raised from May to August.
Oct	9.25%	Lowered from August to October
1984: GDP = 7.3%, Unemployment = 7.3%, Inflation = 3.9%		
Aug	11.75%	Raised from March to August.
Dec	8.25%	Lowered from September to December.
1985: GDP = 4.2%, Unemployment = 7.0%, Inflation = 3.8%		
Mar	9.0%	Raised from February to mid-March.
Dec	7.75%	Lowered from April to December.
1986: GDP = 3.5%, Unemployment = 6.6%, Inflation = 1.1%		
Aug	5.66%	Lowered from March to August.
Dec	6.0%	
Fed Chair Alan Greenspan (August 1987 - January 2006)		
1987: GDP = 3.5%, Unemployment = 5.7%, Inflation = 4.4%		

Date	Fed Funds Rate	Event
Sep	7.25%	Raised rates from April to September.
Nov	6.75%	Lowered after October 19 stock market crash.
1988: GDP = 4.2%, Unemployment = 5.3%, Inflation = 4.4%		
Feb	6.5%	Lowered in January and February.
Dec	9.75%	Raised rates to fight inflation.
1989: GDP = 3.7%, Unemployment = 5.4%, Inflation = 4.6%		
Dec	8.25%	S&L crisis . Fed lowered rates.
1990: GDP = 1.9%, Unemployment = 6.3%, Inflation = 6.1%		
Dec	7.0%	Recession began in July.
1991: GDP = -0.1%, Unemployment = 7.3%, Inflation = 3.1%		
Dec	4.0%	Recession ended in March.
1992: GDP = 3.6%, Unemployment = 7.4%, Inflation = 2.9%		
Apr 9	3.75%	Expansion.
Jul 2	3.25%	
Sep 4	3.0%	Clinton took office in 1993. Fed made no changes.
1994: GDP = 4.0%, Unemployment = 5.5%, Inflation = 2.7%		
Feb 4	3.25%	
Mar 22	3.5%	
Apr 18	3.75%	
May 17	4.25%	
Aug 16	4.75%	
Nov 15	5.5%	Raised rates.
1995: GDP = 2.7%, Unemployment = 5.6%, Inflation = 2.5%		
Feb 1	6.0%	Raised rates.
Jul 6	5.75%	Lowered rates.
Dec	5.5%	
1996: GDP = 3.8%, Unemployment = 5.4%, Inflation = 3.3%		
Jan 31	5.25%	Kept rates low despite inflation.
1997: GDP = 4.5%, Unemployment = 4.7%, Inflation = 1.7%		
Mar 25	5.5%	
1998: GDP = 4.5%, Unemployment = 6%, Inflation = 1.6%		
Sep 29	5.25%	LTCM crisis .
Oct 15	5.0%	
Nov	4.75%	
1999: GDP = 4.7%, Unemployment = 6%, Inflation = 2.7%		
Jun 30	5.0%	Raised rates
Aug 24	5.25%	
Nov 16	5.5%	
2000: GDP = 4.1%, Unemployment = 6%, Inflation = 3.4%		
Feb 2	5.75%	Raised rates despite stock market decline in March.
Mar 21	6.0%	

Date	Fed Funds Rate	Event
May	6.5%	
2001: GDP = 1.0%, Unemployment = 6%, Inflation = 1.6%		
Jan 3	6.0%	Bush took office.
Jan 31	5.5%	
Mar 20	5.0%	Recession began. Fed lowered rates to fight it.
Apr 18	4.5%	
May 15	4.0%	
Jun 27	3.75%	EGTTRA tax rebate enacted.
Aug 21	3.5%	
Sep 17	3.0%	9/11 attacks.
Oct 2	2.5%	Afghanistan War.
Nov 6	2.0%	
Dec 11	1.75%	
2002: GDP = 1.8%, Unemployment = 6%, Inflation = 2.4%		
Nov 6	1.25%	
2003: GDP = 2.8%, Unemployment = 6%, Inflation = 1.9%		
Jun 25	1.00%	JGTRRA tax cuts enacted.
2004: GDP = 3.8%, Unemployment = 6%, Inflation = 3.3%		
Jun 30	1.25%	Low rates pushed interest-only loans . Helped cause Subprime Mortgage Crisis .
Aug 10	1.5%	
Sep 21	1.75%	
Nov 10	2.0%	
Dec 14	2.25%	
2005: GDP = 3.3%, Unemployment = 6%, Inflation = 3.4%		
Feb 2	2.5%	Borrowers could not afford mortgages when rates reset in 3rd year.
Mar 22	2.75%	
May 3	3.0%	
Jun 30	3.25%	
Aug 9	3.5%	
Sep 20	3.75%	
Nov 1	4.0%	
Dec 13	4.25%	
Fed Chair Ben Bernanke (February 2006 - January 2014)		
2006: GDP = 2.7%, Unemployment = 6%, Inflation = 2.5%		
Jan 31	4.5%	Raised to cool housing market bubble. More homeowners default.
Mar 28	4.75%	
May 10	5.0%	
Jun 29	5.25%	
2007: GDP = 1.8%, Unemployment = 6%, Inflation = 4.1%		
Sep 18	4.75%	Home sales fell.

Date	Fed Funds Rate	Event
Oct 31	4.5%	
Dec 11	4.25%	LIBOR rose.
2008: GDP = -0.3%, Unemployment = 6%, Inflation = 0.1%		
Jan 22	3.5%	
Jan 30	3.0%	Tax rebate.
Mar 18	2.25%	Bear Stearns bailout.
Apr 30	2.0%	Lehman fails. Bank bailout approved. AIG bailout.
Oct 8	1.5%	
Oct 29	1.0%	
Dec 16	0.25%	Effectively zero. The lowest fed funds rate possible.
Fed Chair Janet Yellen (February 2014 - January 2018)		
2015: GDP = 2.6%, Unemployment = 6%, Inflation = 0.7%		
Dec 17	0.5%	Growth stabilized.
2016: GDP = 3.2%, Unemployment = 4.6%, Inflation = 2.1%		
Dec 14	0.75%	
2017: GDP, Unemployment = 4.1%, Inflation = 2.1%		
Mar 15	1.0%	Fed projects steady growth.
Jun 14	1.25%	
Dec 13	1.5%	

(Sources: [New York Fed](#). "[A History of Fed Leaders and Interest Rates](#)," The New York Times, December 16, 2015.)