The High-Stakes Battle Between Donald Trump and the Federal Reserve

John Cassidy

In Donald Trump's world, there is always another person responsible for his woes, and, as Kirstjen Nielsen, the departing Secretary of Homeland Security, just discovered, that person often ends up getting fired or forced out. But what if Trump doesn't have the power to dismiss the object of his anger, or he fears blowback from Congress and the financial markets? Then you get the White House's current campaign to undermine the independence of the Federal Reserve and its head, Jerome Powell.

For months now, Trump has been publicly railing against the Fed. In private, *Bloomberg* reported, he has been asking his aides if he can fire Powell, a sixty-six-year-old Republican banker who was confirmed at the start of last year. (According to legal experts, the question is a murky one.) On Friday, Trump again defied the convention that the President stays out of monetary policy, calling on Powell and his colleagues to cut interest rates in order to boost the economy. Referring to the rate hikes that the Fed introduced last year, which were the source of his animus toward Powell, Trump said, "I think they really slowed us down." Trump's senior economic adviser in the White House, Larry Kudlow, has also called for a rate cut.

In addition to jawboning the Fed, Trump has moved to exert more control over its deliberations by announcing his intention to nominate two of his ardent political supporters to its board of directors: Stephen Moore, a conservative commentator who served as an economic adviser to the

Trump campaign in 2016, and Herman Cain, a Republican businessman who ran for President, in 2012. Ignoring widespread criticism that neither Moore nor Cain is remotely qualified to sit on the Fed's board, Kudlow said on Sunday that Trump is standing behind both of them. "We have two open seats," he told CNN. "The President has every right in the world to nominate people who share his economic philosophy."

How serious is the threat to the Fed's independence? Richard Nixon and George H. W. Bush both groused about the Fed's interest-rate policies, which they saw as overly constrictive, but neither of them engaged in a sustained public attack on the central bank, as Trump has done. As with other Presidents, their nominees to the Fed's board tended to be economists and bankers with expertise in monetary policy or financial regulation, which are the bank's two main areas of responsibility. Moore and Cain don't fit either pattern.

On Friday, the editorial page of the *Financial Times* said that the nominations of Moore and Cain "surely qualify as sabotage." Many people who follow the Fed's deliberations agree. "It is as serious of a threat to the Fed as I have seen in my lifetime," Justin Wolfers, a professor of economics and public policy at the University of Michigan, told me. "It raises the prospect of a dysfunctional Fed, and a dysfunctional Fed would lead to a dysfunctional economy."

The consensus among economists is that the U.S. economy, despite a recent slowdown, remains on pace for modest growth this year, and that a cut in interest rates isn't necessary. On Friday, the Labor Department reported that employers created a hundred and ninety-six thousand jobs last month. For the first quarter of 2019, the monthly average was a healthy hundred and eighty thousand. "The March report should put to rest the notion that the economy is doomed to falter in 2019," Douglas Holtz-Eakin, a Republican economist and a former head of the Congressional Budget Office, wrote in a blog post.

To be sure, there are economists who dissent from this analysis and agree with the White House that the Fed has been too hawkish. David Blanchflower, an economist at Dartmouth who has served on the Bank of England's Monetary Policy Committee, said that the Fed's decision to raise the federal-funds rate by another quarter point in December was completely unnecessary and, especially given the slowdown in the global economy, raised the risk of a recession. "Despite the fact that Kudlow, Moore, and the *POTUS* know nothing about economics," Blanchflower said, "they are right on this one."

That is a minority view, but there is almost always some variation of opinion among economists about the appropriate level of interest rates. The advantage of having an independent central bank is that technical economic debates are, at least partly, divorced from the political arena. The Federal Open Market Committee has twelve voting members: seven Fed governors appointed by the President and five presidents of regional reserve banks. Fed governors are appointed for fixed terms; they can only be fired for "cause," and, in the Fed's century of existence, this has never happened. At each F.O.M.C. meeting—they take place eight times a year—members consider detailed presentations about the state of the economy from the Fed's staff. Then they engage in lengthy discussions, some of which are pretty arcane, before voting on what to do. (The policy discussions are transcribed and released after a delay of five years.)

"You definitely feel like you are working in an independent institution," Joseph Gagnon, a senior fellow at the Peterson Institute for International Economics who worked as an economist at the Fed for almost twenty-five years, said. "The fixed terms and the fact that they have never been violated really insulates these people." In attending numerous F.O.M.C. meetings as a resident expert, Gagnon said that the discussions he witnessed were entirely about economics, and politics never came up. "Now, you could say it is in the back of their minds, but I think even that is a bit of a stretch for any of the members I have seen," he said. "I think they did what they thought was best for the country. They are not worried about their jobs, and they think that is what they have been put there to do."

Powell, who worked at the Treasury Department in the George H. W. Bush Administration and joined the board of the Fed in 2012, seems determined to protect the Fed's independence. In January, the Fed indicated that it wouldn't raise interest rates again for the foreseeable future. In explaining this about-turn, Powell had pointed to a slowing economy and quiescent inflation. A week later, he and the Fed's vice-chairman, Richard Clarida, an economist at Columbia University, were invited to dine at the White House with Trump and Steve Mnuchin, the Treasury Secretary. Evidently concerned that the sight of Powell meeting with Trump might create the impression that the Fed had buckled, the bank issued an unusual statement immediately after the dinner, in which it said that Powell told the President that he and his colleagues would "set monetary policy in order to support maximum employment and stable prices and will make those decisions based solely on careful, objective and non-political analysis." How Trump reacted to Powell's declaration of independence isn't known. But it wasn't very long before he started criticizing the Fed again. He also fastened on the idea of filling two vacancies on its board with Moore and Cain.

Moore has been active in Republican politics for decades. A co-founder of the Club for Growth, a nonprofit that pushes for low taxes and spending cuts, he is now a fellow at the Heritage Foundation. But it isn't just Moore's conservatism that his critics are focussing on. "He has shown himself to be incompetent," Wolfers said. "His history of making simple errors of data, his forecasts, and his policy pronouncements have shown him to be among the least high-powered economists ever." Cain has a very different background. From 1986 to 1996, he was the chief executive of Godfather's Pizza. He also headed the National Restaurant Association for a time and served on the board of the Federal Reserve Bank of Kansas City, which is largely made up of prominent local businesspeople and doesn't have any policy role.

Ironically, Moore and Cain have both expressed views on monetary policy that identified them as inflation "hawks"—the opposite of Trump. Cain even advocated a return to the gold standard, the draconian monetary system that helped bring about the Great Depression. It's safe to assume that these views weren't what got Trump's attention. Last year, Moore published a book hailing Trump's economic policies; in December, he called on Trump to fire Powell, and last month he penned an op-ed in the *Wall Street Journal* titled "The Fed Is a Threat to Growth." Cain has been a less visible supporter of Trump, but in September he formed a new Super *PAC*, America Fighting Back, which says, on its home page, "We must protect Donald Trump and his agenda from impeachment." In announcing his intention to nominate Cain to the Fed, Trump called him "a terrific man."

What is going on is perfectly clear. There is another Presidential election on the horizon, the Trump-G.O.P. stimulus is running down, and economic growth is slowing. With the Democrats controlling the House of Representatives, Trump knows that he can't rely on Congress to juice the economy again going into 2020. So he is trying to bully the Fed into doing the job, regardless of the longer-term consequences.

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It's far from clear that this effort will succeed. Even if the Republican-controlled Senate did confirm Moore and Cain to the Fed's board, they would only have two votes out of twelve on the F.O.M.C.: Powell and his allies could easily outvote them. But that might not be the end of it. "The danger is that Mr Trump is preparing to remove Mr Powell himself, in spite of having appointed him," the *Financial Times* editorial pointed out. "Such a move would be challenged in the courts. But there is no guarantee Mr Trump would be overturned, given how effectively he has jammed supportive judges into the system. That would take the US Fed into uncharted waters."

Not just the Fed—the entire U.S. system of government. The biggest danger of a Trump Presidency has always been that it would undermine some of the country's key institutions, such as Congress, the courts, and independent government agencies. So far, the system has—with some notable exceptions—stood up reasonably well under the Trumpian assault. But the game isn't over yet. In an effort to concentrate power in his own hands, Trump will continue to push things as far as he can and to appoint as many lackeys as he can. The attack on the Fed is part of a larger pattern. That is why the stakes are so high, and why Trump must be stopped.