

Undermining the Independence of the Fed is a Terrible Idea

President Trump is known for expressing his views openly, without mincing his words. He has shown in many occasions that he doesn't care about political correctness, an attribute that has allowed him to gain the support of millions of Americans. But being politically incorrect isn't always a virtue, especially when it implies making unreasonable statements without measuring the consequences.

In a recent Reuters interview, Trump outspokenly [criticized](#) Jerome Powell, the Chairman of the Federal Reserve System, for "raising interest rates." He complained that his trade negotiations with the EU and China were being undermined by the Fed's tight monetary policy, which has resulted in a significant [appreciation](#) of the dollar against the Euro and the Yuan since the beginning of the year.

Trump's words questioning the Fed's monetary policy are inappropriate for several reasons. First, Trump seems to ignore the functioning of the Fed, one of the most important institutions of the country. The Fed doesn't raise or cut short-term interest rates directly as suggested by Trump. Instead, it sets a target range and then performs open market operations to reach that target. The President should know by now that the decision to change interest rates isn't made by Jerome Powell exclusively: it is the Federal Open Market Committee, an independent board with twelve members, which makes decisions about interest rates.

Second, the fact that he considers the appreciation of the dollar as a drawback to his trade negotiations suggests that Trump has a flawed understanding of international trade. He seems to assume that trade is about maximizing exports and minimizing imports, which would require the recurrent

devaluation of the dollar against other currencies. The rationale behind this reasoning is simple: a weaker currency can boost exports temporarily since exporting companies will find it easier to sell their products abroad as they become cheaper for importers.

Yet this isn't always the case, especially if other countries establish [retaliatory tariffs](#) as a response to protectionist policies. But more importantly, the exporting strength of a nation doesn't depend on having the weakest currency of all. If this were the case, [Turkey](#) or [Venezuela](#) would be the leading economies in the world. It depends on increasing productivity and improving the quality of the goods and services exported.

That said, the most disturbing implication of Trump's words isn't linked to his lack of understanding of monetary and trade matters, but his disrespect towards the independence and autonomy of the Federal Reserve. That independence is a basic pillar (for better or worse) of the US economy.

The Fed was created in 1913 as an independent institution aimed at providing stability to the financial system. Its autonomy has been severely [undermined](#) on many occasions, especially to accommodate the needs of the government in war time. In addition, the Fed's monetary goals, the so-called *mandate*, are established by Congress, which obviously limit the scope of action of the central bank of the United States.

However, the Fed's independence as an institution has often shielded Fed officials from political pressures, allowing them to carry out monetary policies that wouldn't have been undertaken had the Fed been controlled by the political power. For instance, former Fed Chairman Paul Volcker raised interest rates in the 1970s despite the negative impact that such a measure could have had on the potential reelection of President Carter. By doing so, Volcker succeeded in tackling inflation, paving the way for the strong economic growth of

the 1980s.

History has repeatedly shown that an autonomous central bank, free from political pressures, is essential for a prosperous economy. When the President publicly lambasts a decision of the Fed because it allegedly harms the interests of the nation, he seeks to intimidate those in charge of making extremely important decisions about the future of the US economy, undercutting the independence of monetary authorities along the way. Trump should think twice before making such statements, although this may be asking the impossible.

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