Trump denounces Fed decision not to cut interest rate

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In what was a near-certain decision, the US Federal Reserve kept its base interest rate on hold at its meeting yesterday and essentially signalled a halt to the rate cuts which began last September.

Having cut its rate by a full percentage point over its three previous meetings, the Fed indicated that it had now paused. Fed chair Jerome Powell told the press conference following the two-day meeting that policymakers “do not need to be in a hurry to adjust our policy stance.”

He said the Fed would need to see some “real progress on inflation or some weakness in the labour market before we consider making adjustments.”

The meeting was held in the immediate aftermath of the coming to power of Trump and his slew of executive orders. The press conference saw numerous attempts by journalists to elicit some comment from Powell on the effect of the administration’s policies, but his response was always the same—no comment.

Asked about the impact of the proposed tariff measures, which by their very nature raise prices and thereby are a factor in determining Fed interest rate policy, Powell replied: “We need to let those policies be implemented before we can even begin to make a plausible assessment of what their implications for the economy will be.”

In answer to another question on the effect of the new administration on Fed policy, he said: “I’m not going to have any response or comment whatsoever on what the president said.”

Powell may be trying to retain a stony silence on the policies of the new administration and their impact, saying it was not the job of the Fed to criticise or praise government policy. But Trump has not.

Last week in the lead up to the meeting, Trump declared: “I think I know interest rates much better than they do, and I think I know them certainly much better than the one [Powell] who’s primarily in charge of making that decision.”

Trump has said interest rates should fall “a lot” and he would “let it be known” if he disagreed with a Fed decision.

Trump rapidly made good on this commitment. In a post on his Truth Social messaging platform yesterday, he said: “If the Fed had spent less time on DEI [diversity, equity and inclusion], gender ideology, ‘green energy,’ and fake climate change, inflation would never have been a problem.”

The outburst was in line with his fascistic assertions that the problems of American society and its economy are the result of the activities of “leftists,” “Marxists,” so-called “woke” politics and above all immigrants and refugees.

Having placed in cabinet positions people who have pledged their adherence to him and his MAGA agenda, it irks Trump to no end that he does not, as yet, exercise direct executive power over the central bank.

Trump is the direct representative of the most rapacious sections of the financial oligarchy, having himself emerged from the semi-underworld of New York real estate. Their vast fortunes have been accumulated above all as a result of the escalation of the stock market fuelled by low interest rates.

Powell, on the other hand, must take into account the broader interests of the markets and financial system. As the *Financial Times* comment, he will need to “resist White House pressure if he is to retain the confidence of markets and avoid unleashing a new wave of inflation.”

Trump’s immediate outburst is certain to be only the first. While Trump has said he will not try to remove Powell, whom he appointed, before his term expires in

2026, that issue may arise again. In any case, a political war has now erupted.

Speaking to the FT, well-known Cornell University economist Eswar Prasad commented: “This rate decision, which was the only viable choice the Fed had at this juncture, will cue the political pressure. The coming months will be extraordinarily challenging for the Fed if inflation stays sticky above its target level even as Trump piles on intense pressure to cut rates and bring down borrowing costs.”

It is by no means certain, however, that borrowing costs would come down, even if the Fed were to cut rates. While the Fed funds rate has been cut by a full percentage point since last September, the yield (interest rate) on the 10-year Treasury, which forms the basis for rates across the market, has risen by almost the same amount.

This unusual occurrence is a reflection of the longer-term concerns in financial markets about the escalation of US government debt, now at $36 trillion, and the rising interest bill on this debt, now at around $1 trillion a year. All estimates and calculations are that Trump’s policies, in particular the commitment to extend tax cuts, will increase budget deficits and government debt.

Apart from new debt, there is the issue of the higher interest which must be paid to roll over bonds that were issued when interest rates were very low.

Powell was at pains to project an air of stability, insisting that risks to the economy—rising inflation on the one hand and lower growth on the other—were evenly balanced. But the somewhat jittery nature of the markets was evident in the reaction to the statement announcing the decision.

The Federal Open Market Committee, which determines the policy settings, said US inflation remained “somewhat elevated” and removed an earlier assertion that “progress” was being made towards the Fed’s target of 2 percent inflation. This caused something of a tremor, because it indicated that rates could remain on hold for longer than expected and even that they may rise.

Powell offered the reassurance at his press conference that the changes were a “cleaning up exercise” in the language of the statement, and not a shift in policy.

Powell also pointed to the five-year review of the monetary policy framework, which will be conducted later this year—the last one being in 2020. That review was conducted in conditions of low inflation, and the Fed considered the spike in prices at that time to be “transitory.” It turned out to be the start of the most sustained period of inflation in four decades, leading to the interest rate hikes that started in 2022.

Powell said the review would take into account new ideas and critical feedback, but noted that “the 2 percent longer-run inflation goal will be retained and will not be a focus of the review.”

Inflation remains “sticky” and has marginally increased in the past months. Moreover, the Trump agenda could lead to rising prices, notwithstanding claims by members of his cabinet that tariffs are not inflationary. Thus the reaction to yesterday’s Fed decision from the White House may only be a preliminary skirmish.