

Fed cuts interest rate as chair Powell bats away questions on impact of Trump agenda

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Following the consequential political events of Tuesday, the Federal Reserve meeting over the next two days to set monetary policy was described as one of the more inconsequential of recent times. But future meetings may not be so calm.

As expected, the Fed yesterday cut its interest rate by a quarter of a percentage point (25 basis points). That had been foreshadowed at its September meeting when the Fed reduced its rate by 50 points, the first cut since it began raising rates two and a half years ago.

In his prepared remarks Fed chair Jerome Powell stuck to his steady-as-it-goes script, saying the Fed would seek to adhere to its so-called dual mandate of bringing price stability, defined in present conditions as an inflation target of 2 percent, while ensuring maximum employment.

Presenting a picture of a strong US economy, with inflation coming down, growth of around 2.8 percent and a labour market which, while “cooling” was still strong, Powell said the Fed would continue to try to reach the so-called “neutral” rate, neither restrictive nor expansionary, “carefully” and “patiently.”

“Nothing in the economic data suggests that the committee has any need to be in any hurry to get there,” he said. There was “strong economic growth” and “ongoing strength in the labor market.”

But Powell pointedly sidestepped a question about his picture of a “strong” economy contrasting so markedly with the lived experience of millions of workers and their families dealing with a significant reduction in their living standards reflected in the turn against the Democrats.

The return of Trump and the impact of his proposed agenda of massive tax cuts, sweeping tariffs and mass deportation of immigrants was raised in the question-and-answer session of the press conference at the

conclusion of the meeting.

Powell deflected these questions, refusing to be drawn on what effect the policies of the new administration would be. “We don’t guess, we don’t speculate, and we don’t assume,” he said.

But there was an issue to which he gave a definitive answer.

Back in the latter part 2019, when the stock market was demanding a rate cut, Trump insisted that Powell meet it. In a Twitter (now X) post in August 2019, Trump asked: “Who is our bigger enemy, Jay Powell or Chairman Xi [Jinping]”, the Chinese president.

In line with Trump’s aim to fill crucial positions in his second administration with close cronies, some of his entourage have been pushing for Powell’s removal. Asked if he would step down if asked to do so, Powell replied: “No.” When asked whether he could be removed Powell said that was “not permitted under the law.”

Insofar as longer-term economic questions were dealt with, one was the issue of US government debt. It is now rapidly approaching \$36 trillion under conditions where the payment of the interest bill has risen from around \$300 billion a year a few years ago to more than \$1 trillion today. At present some 14 percent of total government outlays, that is one dollar in seven, is spent meeting this bill.

Powell said the Fed would take material and persistent changes in the costs of US government borrowing into account. He also repeated previous remarks that while the present level of US debt was sustainable, the present path of debt accumulation was “unsustainable.”

Several questions were directed to the recent rise in yields at the long end of the bond market which had started to decline earlier this year.

One of the reasons advanced for the rise is that it reflects concern that with considerable economic and geo-political uncertainty, inflation could spike again. Another is that with government debt on the rise, the Treasury must issue ever-increasing amounts of bonds, lowering their price and driving up yields. (The two have an inverse relationship.)

While Powell seeks to bat away questions on the effect of the policies of the Trump administration, insisting that the Fed is “data dependent” and it makes its evaluations of the effect of government policy when legislation has been enacted, calculations have already been made.

The US is already expected to run a fiscal shortfall equivalent to 6.5 percent of GDP in 2024, pushing the total debt to around 100 percent of GDP. According to a report on Bloomberg, Trump’s proposal for lowering corporate and income taxes would lift this proportion to 116 percent of GDP by 2028. Tariff measures on Chinese and other imports would raise prices by between 0.5 and 4.3 percent, depending on how many other countries retaliated as well as slowing economic growth.

A comment by Chris Giles of the *Financial Times*, published before yesterday’s Fed announcement, said that Trump’s emphatic victory “digs a series of bear traps for central bankers” and presented “something of a crisis for monetary officials.”

He noted that central bankers would trot out well-worn scripts at their press conferences and would avoid the key issues “worrying everyone else” while appearing to remain calm.

“Where central banks are most exposed, however, is in their economic modelling capabilities,” he continued.

“If Trump uses his widespread new authority to impose tariffs at 1930s levels, deport immigrants en masse and radically cut taxes as he had promised, economic models are extremely poor at dealing with such large shifts. They are based on data in periods of relative calm and struggle to cope with the consequences of more tumultuous times.”

Consequently, central banks risk being “blindsided by the possible world of geopolitical tensions, vicious trade wars, and a president intent on having a say in Fed decisions, vastly underestimating the potential repercussions.”

His conclusion was that if Trump is serious about his economic proposals, then “a more troubled period lies ahead for central banks.”



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