

Donald Trump and the Federal Reserve: A Struggle Over US Monetary Policy

Donald Trump has opened a new war in America, and this time his target is the country's central bank - the Federal Reserve. Just as the Reserve Bank of India is in India, the Federal Reserve is in the United States, whose current chairman is Jerome Powell.

Trump has accused Powell of not lowering interest rates enough. Even a small change in interest rates in the United States impacts the entire world, including India. Let's understand what this dispute is about and what impact it could have on India.



by OJAANK IAS

The Issue of US Federal Reserve and Interest Rates

Current Situation

The Federal Reserve has currently kept interest rates between 4.25% and 4.5%. This is similar to India's repo rate, which has recently been reduced from 6.5% to 6%.

Trump's Stance

Trump wants interest rates to be cut further. His argument is that his tariff policies will bring more revenue to the US and reduce foreign competition.

Federal Reserve's Stance

The Federal Reserve believes that Trump's tariff policies will increase inflation. If interest rates are cut, the economy will overheat excessively.

Tension Between Trump and Powell



Direct Accusation

Trump has directly accused Powell of pursuing "too tight and wrong" monetary policy. This tension is continuously escalating.



Constitutional Debate

Trump is hinting that they could remove Powell, leading to a constitutional debate in America on whether the President has the power to remove the head of an independent agency.

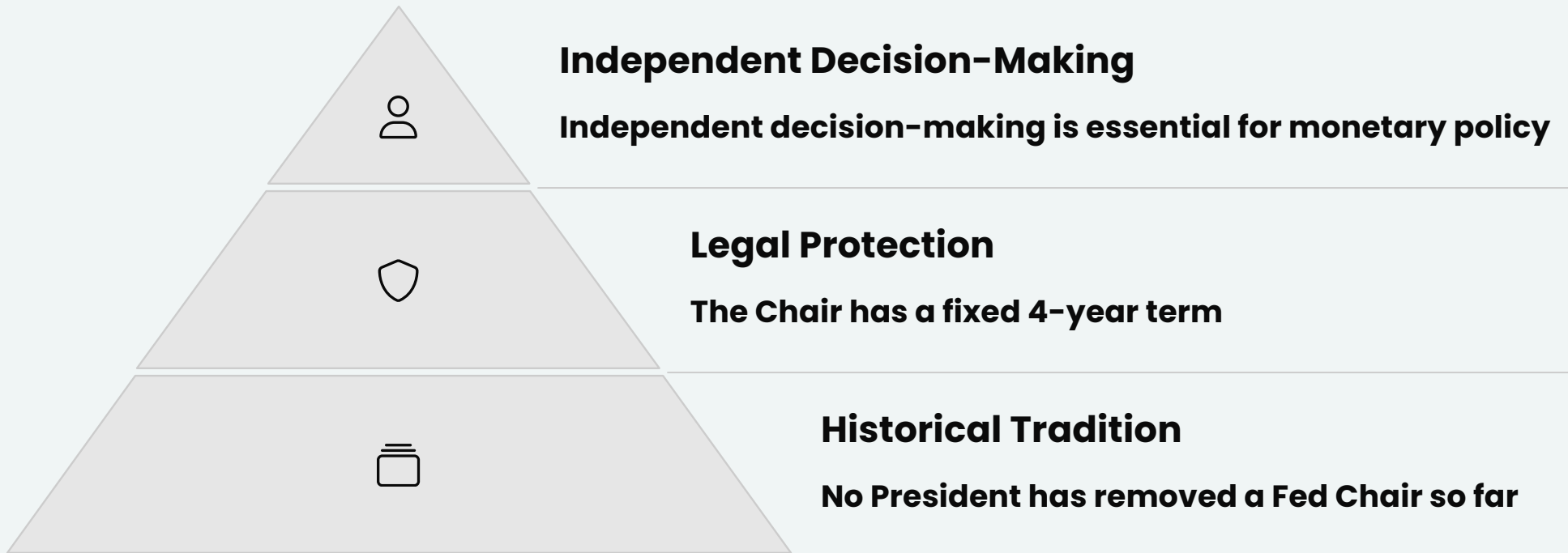


New Chairman

Trump wants Kevin Warsh to be appointed as the Fed chairman, who has previously served as a Federal Reserve governor and is a proponent of lower interest rates.



The Issue of Federal Reserve's Independence



The Federal Reserve Chair is appointed for a fixed 4-year term and can only be removed for specific reasons. This legal protection shields them from political pressure. Interestingly, Trump nominated Powell in 2018, and Biden extended his term until 2026 in 2022.

Constitutional Dispute and the Supreme Court



Case in the Supreme Court

Can the President influence independent agencies?



Crucial Decision

The decision will determine if Trump can remove Powell



Widespread Impact

The decision will affect central banks worldwide

There is a significant case currently underway in the US Supreme Court (SCOTUS) that will determine whether the President has the power to influence independent agencies. This decision will also clarify whether Trump can remove Powell. The impact of this decision will be felt not only in the US, but across central banks worldwide.



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Economic Impact and Market Reaction

Stock Market Volatility

Market volatility due to doubts about the Fed's independence

Global Impact

Global capital flows and dollar strength will be affected



Investor Confidence Decline

Confidence in US institutions will decrease

Inflation Concerns

Expectations of long-term inflation will increase

Doubts about the Federal Reserve's independence could lead to volatility in the stock market. The market pays close attention to the Fed's credibility and independence. If people feel the Federal Reserve is not independent, they will start withdrawing their money from the stock market, leading to instability in the bond and equity markets.

Trump's Political Objectives

Short-term Economic Expansion

Trump wants to achieve short-term economic expansion so that he can show that the US GDP grew as soon as he became president.

Midterm Elections

The midterm elections in the US are coming up next year, and Trump wants his party to benefit from them.

Stock Market and Employment Data

Trump wants to show improvements in the stock market and employment data, so that his popularity increases.



Potential Impact on India



Increase in Foreign Investment

With interest rates declining in the US, investment in developing countries like India could increase, leading to a rise in FII and FDI inflows.



Appreciation of the Rupee

The weakening of the US Dollar could strengthen the Rupee, making India's imports, especially gold and oil, cheaper.



Benefit for Indian Companies

The cost of borrowing for Indian companies in foreign countries could decrease, allowing them to expand their businesses.



Impact on Indian Monetary Policy

The RBI will also have more opportunities to cut interest rates, which are currently at 6%.



The Importance of Central Bank Independence

1

Historical Tradition

Monetary policy has been independent in the US for decades, which is crucial for the economy.

2

Debate in India

There was also a debate on the independence of the RBI during the time of Urjit Patel and Raghuram Rajan.

3

Institutional Integrity

Institutional integrity is extremely important for economic stability and trust.

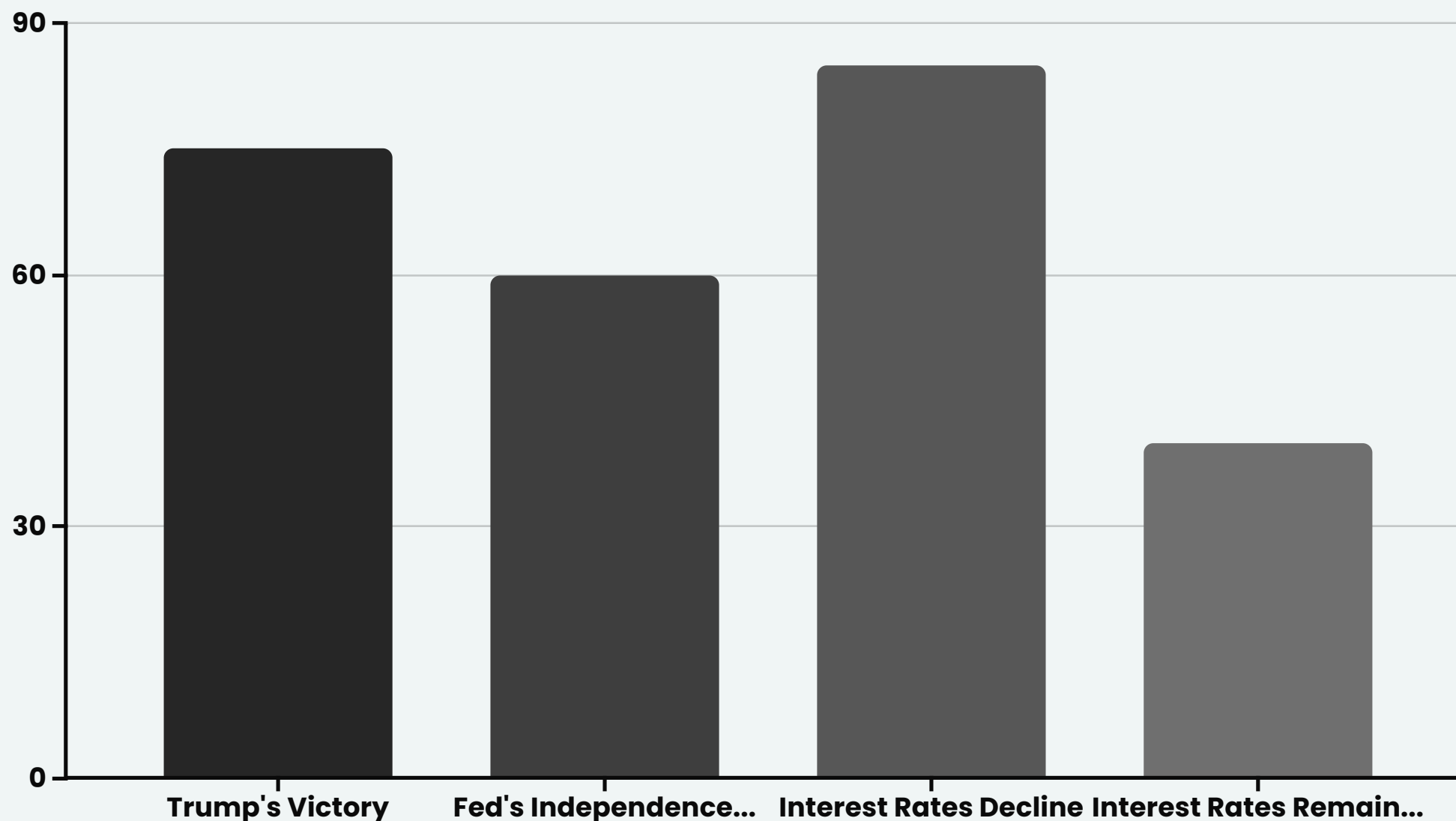
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Global Impact

The independence of the Fed in the US has an impact on central banks around the world.



Conclusion: Monetary Policy and Political Intervention



The ongoing tussle between Donald Trump and the Federal Reserve in the US is significant not only for America but for the entire world. If Trump succeeds in his agenda and the US lowers interest rates, it could benefit India. However, questioning the independence of central banks could impact long-term economic stability.



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