CENTRAL BANKS

Donald Trump Complained About Fed Interest-Rate Increases at Fundraiser

Trump worried higher interest rates could cool off the economy

President Donald Trump feared that the Federal Reserve's moves to raise interest rates could hurt the economy. PHOTO: MANDEL NGAN/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Peter Nicholas and Nick Timiraos

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President Trump told donors he is unhappy with the Federal Reserve's recent moves to raise interest rates and raised doubts about the man he placed in charge of the institution, Jerome Powell, people in attendance at a fundraising event said.

Mr. Trump said his advisers told him last year Mr. Powell would support "cheap money" as the Fed's chairman, and then Mr. Powell surprised him by embracing rate increases, which the president fears will cool off the fast-growing economy.

"That can only happen to Trump," the president said ruefully at the event Friday in New York's Long Island, according to one person familiar with the matter.

Mr. Trump, who supported easy-money policies during the 2016 campaign, has voiced his concerns privately to advisers with increasing frequency in recent weeks. He has also grown more vocal publicly, expressing his misgivings over the Fed's policies to chief executives meeting at his golf club in Bedminster, N.J., earlier this month, according to a person who attended, and before that once on Twitter and in a television interview.

The president's growing discontent could become a precursor to clashes between the White House and the central bank as the Fed proceeds with long-planned increases in short-term rates.

The Fed has raised rates twice this year, most recently in June to a range between 1.75% and 2%. Officials are expected to raise them in quarter-percentage-point increments at meetings in September and December, and have projected increases to around 3.4% by 2020.

Mr. Trump last year chose Mr. Powell to succeed Fed Chairwoman Janet Yellen. In an interview with Reuters on Monday afternoon, Mr. Trump said he hadn't decided whether he made the right call to promote Mr. Powell.

"Am I happy with my choice?" he said. "I'll let you know in seven years."

Mr. Powell has a four-year term and can't easily be replaced by a dissatisfied president.

Higher rates are meant to prevent the economy from overheating and causing inflation or a financial bubble. They also have the effect of slowing economic growth when pushed high enough. Some past Fed rate-increase campaigns have even led to recession.

Mr. Powell has been following through on gradual rate increases started by Ms. Yellen in December 2015.

Some of Mr. Trump's political advisers worry that if the Fed continues to raise rates, economic growth and job creation might slow just as his re-election campaign kicks in.

"It's very difficult for re-election in 2020," one person close to the White House said.

A spokeswoman for the Federal Reserve declined to comment. A spokeswoman for the White House didn't respond to a request for comment.

In making known his concerns about the Fed's rate increases, Mr. Trump is also laying out a defense in the event that the economy stumbles, one person close to the White House said.

"He wants to get it out that the Fed is to blame, rather than some deficiency with him or his policies or anything you can rightly hold the president responsible for," this person said.

Disagreements over monetary policy are complicated by the uncertain effects of U.S. fiscal policy. White House officials argue that last year's tax cuts will boost long-term economic growth without causing inflation. The Fed's economic projections suggest many central-bank officials see the benefits from tax cuts as mostly temporary.

Because the unemployment rate has fallen to historically low levels, many Fed officials are nervous that inflation could accelerate or bubbles could crop up. The Fed sees rate increases as necessary to prevent such overheating. It targets 2% average inflation in the long run and its preferred consumer-price gauges are near that threshold.

"What Trump is worried about is that the Fed has, in my own words, growth phobia," said Stephen Moore, a Republican economic commentator who advised Mr. Trump during the 2016 presidential campaign.

"The president is worried about how are we ever going to get wages up if every time we see an increase in wages, the Fed raises rates to bring them back down again?" Mr. Moore said.

At his golf club in New Jersey two weeks ago, Mr. Trump made similar comments to chief executives who attended a dinner there, according to the person who attended. This person said Mr. Trump seemed to lament having picked Mr. Powell to run the Fed. This person also said the president said he had believed Mr. Powell wouldn't be raising rates much.

"'I'm depending on this guy and I hope he listens,' that was the tenor," the attendee said.

The Fed isn't likely to change its rate-setting decision because of public pressure, but it could complicate Mr. Powell's job of communicating any policy shifts.

"The decisions are going to be made independently" of politics, said Michael Feroli, chief U.S. economist at JPMorgan Chase. "But if the Fed deems it appropriate to pause rate increases, people will say, 'Oh, are they doing this because they're kowtowing?'"

Mr. Trump has had the opportunity to fill up to six of seven openings on the Fed's Washington-based board. Two of his nominees, including Mr. Powell, have been confirmed by the Senate, which has yet to approve another three. Mr. Trump would have one additional vacancy to fill after that.

"The way for a president to influence the Fed is solely through his appointments," said Mr. Feroli. "So far, he has appointed competent professional people who will probably do the right thing and ignore these remarks."

For much of the past quarter-century, the president and White House economic advisers have refrained from commenting on Fed policy. That precedent is still relatively novel.

President Lyndon Johnson clashed with former Fed chairman William McChesney Martin Jr., and Richard Nixon pressured the adviser he selected to run the Fed, Arthur Burns, to keep rates low before his 1972 re-election.

Inflation later rose sharply, and the Fed later came to view both episodes as costly mistakes. It has more studiously guarded its independence from political matters since then.

Before Mr. Trump, the last president to publicly call for lower interest rates was George H.W. Bush during his re-election bid in 1992. He later blamed Alan Greenspan's decision not to keep rates lower after the 1990-1991 recession for contributing to his election defeat.

President Bill Clinton's top economic adviser, Robert Rubin, successfully convinced him not to second guess the Fed, arguing it would ultimately reassure investors inflation would be held in check and hold down government borrowing costs.

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