United States Senate

WASHINGTON, DC 20510

November 12, 2018

The Honorable Donald J. Trump President of the United States The White House 1600 Pennsylvania Ave, N.W. Washington, D.C. 20500

Dear President Trump:

We are concerned about your recent comments harshly criticizing the Federal Reserve (Fed) for its interest rate decisions. We are writing to urge you to respect the independence of Fed officials, and to follow the example of other modern presidents by refraining from pressuring the Fed on interest rates. If you undermine the Fed's credibility, you are putting the U.S. economy at risk. Supporting the Fed's independence stabilizes markets, supports economic growth, and helps create good-paying American jobs.

The effectiveness of the Fed depends upon sufficient separation from politics, which is why Congress established the Fed as an independent agency. Federal Reserve Board members are not cabinet members. They do not serve at the pleasure of the President. Rather, they serve terms that often span both Democratic and Republican administrations. Never in the 105-year history of the Fed has a chair been removed by the President. In fact, the law prohibits a President from removing a Fed board member, except for cause. Disagreement over interest rates clearly is not justifiable cause.

The law insulates the Fed from political pressure so that the Fed can adjust rates with a focus not on the next election, but on the long-term health of the U.S. economy. Indeed, Fed independence has been an important ingredient to U.S. economic growth over the past century. In the late 1970s, for example, the Fed successfully fought off damaging inflation by making interest rate decisions that would have been very difficult to sustain if the Fed were expected to help the political party in power. It is no surprise that across the globe, countries with independent central banks are more successful at keeping inflation low.

Fed independence is not just about its board members serving uninterrupted terms. Over the past quarter century, Democratic and Republican presidents built a tradition of not commenting publicly on interest rate decisions. Of course, this is not required by law. Over this period, however, respect for the Fed's independence has helped it to build valuable credibility with markets, which makes the Fed more effective. During the Great Recession, for example, the Fed's pledge to hold interest rates low for a sustained period helped to stimulate the recovery—because markets believed the Fed would follow through.

Congress gave the Fed a mandate—price stability and maximum sustainable employment—and the independence to achieve those goals. Of course, the Fed should be and is accountable to

Congress and the public. Fed officials must explain what they are doing and why, as they do in congressional hearings, press conferences, and other public appearances. But your ill-advised commentary goes beyond holding the Fed accountable. You appear to be telling the Fed what to do with interest rates, which we believe is unconstructive and dangerous.

For these reasons, we share a deep concern that if you continue to verbally attack the Fed suggesting that a particular monetary policy is owed to you as president—you will establish a dangerous precedent that could do grave damage to the U.S. economy. We have confidence in Chairman Jerome Powell and believe, under his leadership, the Fed will not bow to political pressure of any kind. Yet we are concerned because simply a perception among market participants that the Fed could consider politics in its decisions would imperil its ability to control inflation.

We have seen firsthand the damage that can be done by heads of state who intervene in the decisions of their countries' central banks, particularly in sub-Saharan Africa, where we have traveled together extensively. Take the most extreme case, for example—Zimbabwe. Its longtime dictator Robert Mugabe forced the central bank head to print money, causing hyperinflation at the root of that country's political turmoil and instability. The U.S. is not Zimbabwe, but we ought to learn an important lesson from it and other countries whose heads of state crossed this line: It never ends well.

Fortunately, you have an opportunity to change course. We call on you to acknowledge that the Fed chair and its board are free to carry through their full terms. We ask that you pledge, as your three predecessors have done, to refrain from criticizing their decisions. Ultimately, this is the best way for you to strengthen the U.S. economy, something at which we all would like you to succeed.

Sincerely,

United States Senator

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