

The Federal Open Market Committee Meeting: An Independent Decision

The most recent Federal Reserve Open Market Committee announcement came as no surprise: the Fed held the fed funds target steady, meaning that short-term interest rates won't be going up or down due to the central bank's policy. What WAS a surprise, however, is Fed chairman Jerome Powell announced that he isn't going anywhere.

The Fed has been in danger of becoming a political football, and this is not new. Every President and every political party in power have tried, in various ways, to lean on the Fed to lower interest rates in order to juice up the economy before the next election and allow the President to claim that he's guiding a successful economic ship. The problem, of course, is that a purely political rate decision comes with a near certainty that the economy will overheat, leading to runaway inflation, which could be followed by a recession and—worst case scenario—a stagflation situation where the economy is in the tank while inflation runs wild.

And who cares? By that time, the whole mess has fallen into the lap of the next President, who can then be blamed (again, politically) for doing a terrible job of managing the economy he/she inherits.

Powell's decision to stay on must surely rankle President Trump, who has been a more heavy-handed than his predecessors in his attempt to influence Fed policy. At various times, the President has tactfully termed the Fed chairman as 'Jerome Too Late Powell,' and called him a 'numbskull' for being cautious about juicing the economy with inflation running at (currently) 3.3%—and rising, as higher gas prices are finally showing up in the numbers. It should be noted that Powell is hardly a Democratic hack; he was appointed to his chairmanship role by President Trump during his first term in office and is reportedly a registered Republican.

In the FOMC comments, the Fed chairman noted upward pressure on inflation, and said that with rising energy prices, the rise is unlikely to have peaked yet. The economy is expanding, but the comments made clear, the future is a bit uncertain with the war in the Middle East and the Strait of Hormuz still choked off. He also, departing from a strictly economic presentation, emphasized the importance of central bank independence—and the 1913 act of Congress that created America's central bank specified that the Fed is permitted to, and should, set interest rates without political interference.

Powell's term as Fed chair expires in May, but he can remain a member of the Board until January 2028. The new Fed chair will have to abide by the voting decision of the Committee regarding interest rates in the future. Like Powell, they are unlikely to be bullied by individuals on either side of the aisle for political purposes.

Sources:

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