Federal Reserve

Investors underestimate Donald Trump's threat to the Federal Reserve, economists warn

FT survey cites fears that president's assault has caused long-term damage to the US central bank and economy

Many economists believe the Fed's priorities will change after chair Jay Powell leaves in 2026 © Al Drago/ Bloomberg

Olaf Storbeck in Frankfurt and **Claire Jones** in Washington

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Financial markets have not fully priced in the risks posed by Donald Trump's attacks on the Federal Reserve, which include higher inflation and a loss of confidence in US government debt, economists warn in a survey by the Financial Times.

The US president's interventions against the world's most powerful central bank have led to fears that the Fed's powers to set interest rates to keep inflation in check will be compromised.

In the poll of 94 economists based in the US and Europe, many feared that the assaults would lead to a permanent shift at the Fed towards prioritising jobs and lowering government borrowing costs once chair Jay Powell's term as chair ends next year.

"The Fed will become a puppet of the government," said Christiane Baumeister, an economist at University of Notre Dame, who was among the respondents. Various other participants described the outlook for US monetary policy as "horrible", "chaos", and a "disaster".

Separately, European Central Bank President Christine Lagarde said on Monday that any loss of the Fed's independence would pose a "serious danger" to the US and global economies, telling France's Radio Classique that it would be "very worrying" if US monetary policy "were no longer independent and instead dependent on the dictates of this or that person".

Trump has repeatedly lashed out at the Fed since the start of his second term, labelling Powell a "numbskull" over his refusal to cut rates this year.

Jay Powell and Lisa Cook during an open meeting of the Board of Governors at the Federal Reserve on June 25 in Washington © Mark Schiefelbein/AP

The White House escalated its attacks in late August by announcing the sacking of Fed governor Lisa Cook with immediate effect.

Cook has refused to leave and is fighting Trump through the courts in what legal scholars say will be a test of how much power the White House can exert on the central bank.

In the online poll of academic and private sector economists conducted between

In the online poll of academic and private sector economists conducted between Wednesday and Friday last week, 89 of the 94 participants warned that the row had already damaged the Fed's credibility.

More than a quarter of the economists fear that by the end of Trump's term in 2029, the Fed will be unable to fulfil its mandate to set US borrowing costs free from political influence, although 45 per cent think it is too early to tell in what shape the central bank will be by then.

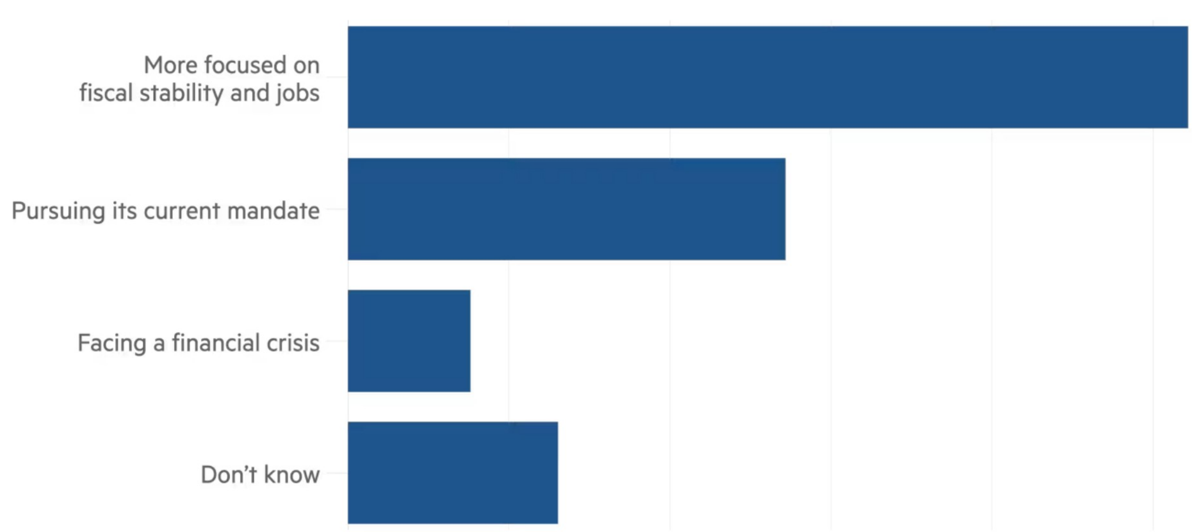
According to the survey, 28 per cent are cautiously optimistic, predicting that while the Fed's independence will be reduced by 2029, it will still be able to do its job.

Congress provides checks on the White House's power, with a Senate majority needed to approve presidential nominations for senior officials and authorise changes to the governance of the central bank. A hearing for Trump's latest pick for governor, Stephen Miran, is set for Thursday.

A majority — 52 per cent — of poll respondents expect that the Fed's focus will already change next year after Powell's term as chair has expired, predicting that the central bank will then put more emphasis on lower government borrowing costs and jobs "at the expense of price stability".

After Powell's term has expired and his successor has been in the job for a few months, the Fed will mainly be ...?

% of respondents



Source: FT survey of 95 economists

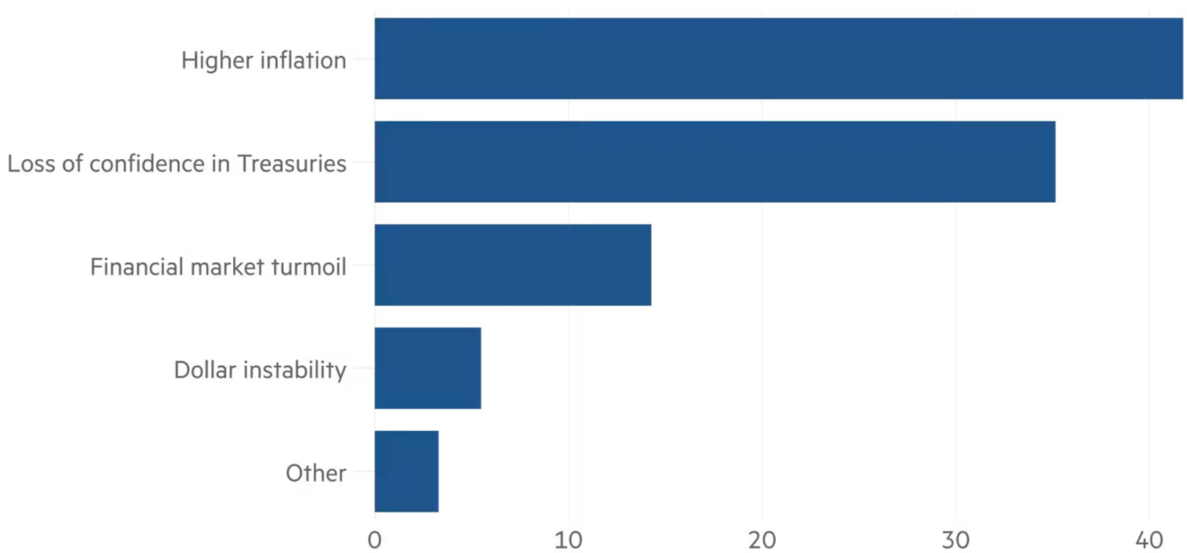
There is consensus among the economists that Trump's attacks would — if they lead to a weakening of the central bank's independence — wreak damage on the world's largest economy.

"This is one area where most economists agree," said Rüdiger Bachmann, professor of economics at University of Michigan, adding that the Fed's independence "leads to lower and more stable inflation and financial stability".

Trump's attacks risked unleashing strong inflationary forces, according to 42 per cent of the participants. Another 35 per cent said that a potential loss of investor confidence in US Treasuries was the biggest risk.

What is the single-biggest economic risk if the Fed's independence is eroded?

% of respondents



Source: FT survey of 95 economists

Only one respondent said that Trump's attacks on Fed independence did not constitute a "meaningful risk" to the economy.

The Fed has had the right to set interest rates free of political pressure since 1951. While several US presidents have called for lower borrowing costs in the intervening decades, none have been as aggressive as Trump.

The president wants borrowing costs at 1 per cent to goose the economy and cut the government's refinancing costs by "hundreds of billions of dollars".

"In order to get a sense of the risks the White House is running by trying to subjugate the central bank, we need look no further than Turkey," said Moritz Kraemer, chief economist at German lender LBBW, adding that the US dollar "has more credibility to lose" than the Turkish Lira.

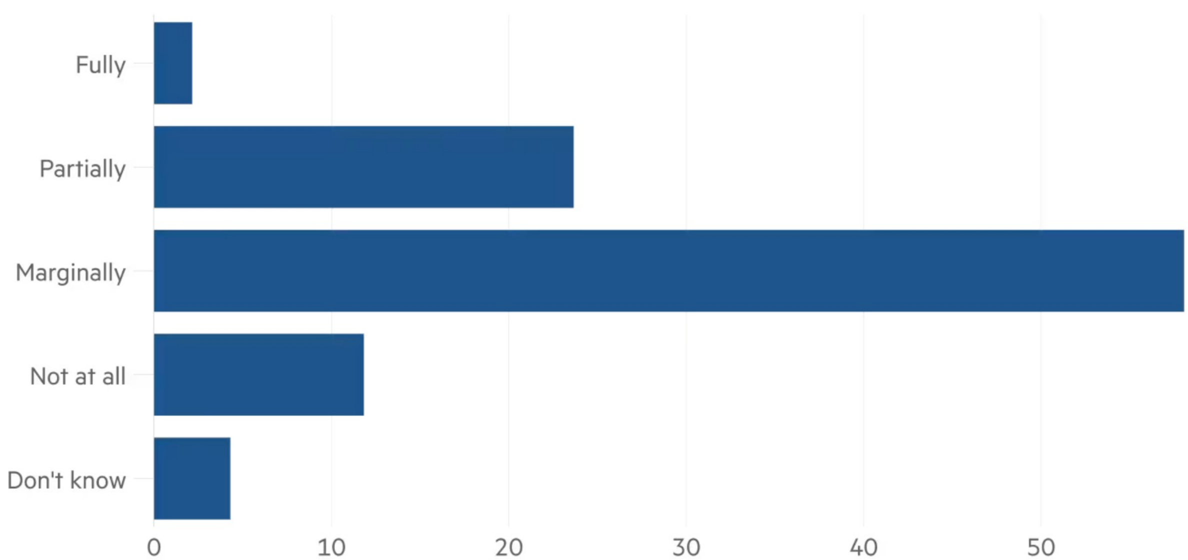
Karsten Junius, of private bank J Safra Sarasin, said the Fed would have to "fight for its survival or risk a US dollar crisis".

Earlier threats to fire Powell triggered a strong reaction from investors, but markets reacted with a whimper to news of Cook's firing.

Eighty-two per cent of the participants in the FT poll are convinced that financial markets have so far priced in the White House's interventions on the Fed only partially or marginally, while another 12 per cent think the attacks are not priced in at all for now.

To what extent do markets currently price in the White House's interventions on Fed policy and composition?

% of responses



Source: FT survey of 95 economists

Source: FT survey of 75 economists

"Financial markets might not push back enough to make a difference," said Derek Tang of LH Meyer, adding that Trump's success in threatening the Fed "might only embolden attacks on other central banks".

Additional reporting by Myles McCormick and Ian Hodgson in Washington Data visualisation by Keith Fray

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