

# **The Siege of the Fed: How Political Pressure Threatens the U.S. Economy**

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## **Introduction**

The current macroeconomic landscape is characterised by shifting balances of economic governance and new political motives, most notably by Trump and the administration's interests of transforming the US economy into a high-growth manufacturing powerhouse that does not rely on any other country (Trump, 2024). The administration is seeking to accommodate this demand by creating a favourable, low-interest-rate environment that allows for rapid injection of capital into the economy through cheap loans, increased debt levels and increased spending on the domestic economy. This motive contravenes the Fed's mandate for price stability and minimum unemployment by creating a risky environment that is characterized by persistent inflation, barriers to trade and rising costs of production (Clausing & Lovely, 2024). This conflict of interest between the administration and the Fed presents itself as a fight for control over monetary policy, which jeopardizes the institutional independence of the Fed.

To understand this conflict and provide suitable recommendations, we must understand the tools the Fed has at its disposal, and how those mechanisms impact the economy. This brings us to the concept of the dual mandate, which the Fed follows to maintain the balance between employment and inflation: ensuring that the economy has minimum unemployment while targeting an inflation rate of 2%. The main rationale behind the Fed's independent decision-making process is that it allows for timely and appropriate responses through monetary policy actions, mainly adjusting the interest rate and changing the size of its balance sheet with quantitative easing or tightening—changing the supply of money in the economy to stimulate or decrease the activity. The Fed bases its decisions on economic variables and objective data such as unemployment, GDP growth and inflation, thereby preventing short-term political motives of politicians from interfering with long-term objectives; short-term motives can be guided by re-election ambitions to muster popular support that come at the expense long-term objectives (The Federal Reserve, 2024).

This institutional conflict is unfolding within an environment of stubborn price instability and rising unemployment. After climbing up to 9% in June 2022, annual inflation has been on a volatile descent thanks to the monetary tightening policy taken by the Fed with effective interest rates going from 1.58% in June 2022 to 5.33% in July 2023 (Federal Reserve Bank of St. Louis, n.d.). However, this downward trend has since stalled, with inflation bouncing back from 2.3% in April 2025 to nearly

3% in October 2025, which is above the FED's target level of 2%. The unemployment rate has been following a similar course; after coming down from around 6% in July 2021 to 3.4% in April 2023, it has been on the rise and sits at 4.4% as of September 2025 (Federal Reserve Bank of St. Louis, n.d.). Meanwhile, current projections for GDP growth estimate that the growth rate will slow down in 2025 and 2026 to an average of 1.8% compared to a higher 2024 baseline rate of around 2% (Bipartisan Policy Centre, 2025, para. 8).

This policy paper argues that the political motives of the administration regarding the economy and their implications undermine the Fed's dual mandate and its principle of political independence. This paper aims to explore appropriate policy recommendations that seek to accommodate the goals of the administration without contradicting the operating principles of the Fed and its dual mandate.

## **Section 1**

The Federal Reserve was created in 1913 to provide the US with a safer, more stable and more flexible monetary and financial system through the Federal Reserve Act (The Federal Reserve, 2017). It exercises its monetary powers to regulate the economy and shapes the path the economy follows.

Nixon attributed his 1960 election loss to a recession driven by the Federal Reserve's restrictive monetary policy. Determined to avoid a similar outcome in 1972, he pressured the Fed to adopt an expansionary stance. This strategy successfully stimulated short-term growth and secured his re-election, but it disregarded the severe long-term consequence: persistent, high inflation (Abrams, 2006). What followed was a pressuring campaign that was uncovered later from multiple conversations between Nixon and his supporting advisors. During one of the conversations between Nixon and Arthur Burns, chair of the Fed at the time, Nixon said "My relations with the Fed, will be different than they were with Martin [chair of the FED from 1951 to 1970] there. He was always six months too late doing anything. I'm counting on you, Arthur, to keep us out of a recession" (Abrams, 2006). Nixon was indicating that the previous Fed chair was late to lower the interest rates and that Arthur would have to lower the rates and stimulate economic growth before Nixon's re-election. The federal funds rate (effective interest rates) were lowered from 8.71% to 4.05% in the 2 years leading up to the election. During this time, M1 and M2 (measures of liquid money in circulation that influence currency value through supply and demand) saw high growth, with M2 growing over 31% over 2 years. Consequently, inflation became unusually high for 2 years following the election, standing around 9.6% and 11.8% in 1973 and 1974 respectively. While these changes created the low-rate, high growth economy Nixon wanted for popular support, they created a cost-of-living crisis through persistent inflation. Nixon

himself had to implement measures such as price and wage controls to address inflation (Abrams, 2006). The following chair of the Fed, Paul Volcker, had to raise interest rates as high as 20% and produced a recessionary shock, the “Volcker Shock”, to curb the inflation during his 1979-1987 term (Medley, 2013).

A second example is the FED’s role in mitigating the 2008 financial crisis. In 2008, the financial system crashed because of reckless lending and risky bets on the housing market. To stop the panic, the Federal Reserve used its emergency powers to lend money to failing giant financial institutions like Bear Stearns and AIG. Although these were not regular banks, the Fed intervened because it deemed them 'too big to fail'—meaning their collapse would have taken the rest of the economy down with them (The Federal Reserve, 2010). This was done to prevent a catastrophic domino effect. The Fed then created funding pools that purchased the debt that was causing financial strains on firms to keep the money flowing and to mitigate the state of panic (Federal Reserve, 2010)

These examples demonstrate how powerful Fed’s tools can be for shaping the economy. They can be tools of both disaster and mitigation, and highlight the importance of the boundary between institutional independence and political pressure (Alesina & Summers, 1993).

## **Section 2**

In this section, we will examine what the current administration seeks to accomplish and how the administration’s methods create a conflict between the Fed and the President that threatens Fed independence (Hufbauer, 2024).

Trump’s agenda is built on transforming the US into a manufacturing powerhouse that does not rely on any trade partners to function. To achieve this, Trump’s strategy focuses on deregulation to lower costs and high tariffs to discourage imports and boost domestic production. A fundamental part of this plan is a high-growth economy fuelled by cheap debt. Trump argues that for the US economy to expand rapidly and produce more, interest rates must be lowered to incentivise activity through lending, which will be complemented by government borrowing to fund this transition (Peters & Woolley, 2024).

The Fed on the other hand has been following a more observant and calculated approach. The Fed uses a data-driven approach that prioritises the long-term wellbeing of the economy when setting

interest rates, accounting for short and long-term forecasts of the economy through metrics such as inflation, unemployment change, payroll numbers and GDP. It believes that lowering the interest rates freely will exacerbate the persistent inflation it has been fighting (The Federal Reserve, 2025). At the same time, the Fed is highly concerned about the recent cooling of the job market and rising unemployment risk, designating it as the main reason for its September rate cut (MTS Insights, 2025). However, this favouring should not be confused as a sign of capitulation to political pressure, as the Fed openly states that the current environment poses great risks for both aspects of the dual mandate. The full economic implications of the administration's proposed trade and fiscal adjustments are not yet visible in the data, as the process for policy announcement to consumer price impact often spans multiple quarters (Powell, 2025). Current talks regarding tariffs and regulations are still ongoing while evidence from the Fed's own regional surveys indicate that firms are still hesitant at reflecting rising input costs to consumers, fearing loss of market share (The Federal Reserve, 2025b).

The conflict between the administration and the Fed has escalated from public criticism to direct institutional interference; President Trump has sought to undermine the Fed's credibility by dismissing inflation data—declaring 'inflation has been defeated'—and levelling personal insults at Chair Powell for maintaining restrictive rates (Rugaber, 2025bo). Trump has openly criticised Powell, especially when the Fed decided to keep the rates the same in July, stating “So we have a stupid person frankly at the Fed, he probably won't cut today” (Garcia, 2025, para. 8). These verbal attacks have evolved into administrative action. In August 2025, Trump attempted to remove Fed Governor Lisa Cook, an attempt stopped by The Supreme Court (Sherman, 2025). Furthermore, the administration is trying to undermine the independence of the Fed by nominating Stephen Miran (a close administration ally) as a Fed Governor. These actions are an effort to install executive loyalists into the monetary decision-making process (Rugaber & Boak, 2025).

### **Section 3**

These tariffs create a tax on the economy that is difficult for the Fed to assess when deciding on interest rates. Tariffs lead to lower purchasing power for consumers as imports become more expensive while firms have delayed investment and hiring amid the uncertainty, lowering GDP growth (Warwick, 2025). Normally, the FED would respond to this by cutting the rates. However, these tariffs and the administration's recent economic policies of trade independence and increased economic activity are keeping the risk of inflation present. A study by PIIIE projects that if the tariffs that are threatened by Trump are implemented on top of existing ones, the actual growth rate of the economy could be lower than 2024 projections by as much as 0.85% by 2026 (Warwick, 2025). This contraction would negatively impact employment, particularly in sectors such as manufacturing, mining and

agriculture due to input and labour prices, which are already under strain because of the Trump administration's policies (McKibbin et al., 2025). Another important aspect is the effect of these tariffs on other countries and global growth. Retaliatory tariffs and trade restrictions by the US and other countries fuel the ongoing trade disagreements, which put global trade and growth at further risk. Since the US is a massive consumer market for imports and is a lead exporter in many other industries, jeopardizing global trade would put its consumption-focused economy at risk (Zandi et al., 2024). Rising input prices and persistent supply shocks due to tariffs are eroding investor confidence, which creates a fragile environment where the stability of the financial system itself is at risk. This fragility threatens the status of the US Dollar as a safe haven, as with less trust investors start demanding more return for holding US debt. This would make managing interest rates more complicated for the Fed, as the spread between bond yields (return investors want for holding US debt) and interest rates widen, creating pressure on the Fed to adjust interest rates to service the debt. The International Monetary Fund explicitly warns that this dynamic—specifically a sudden change in bond yields or asset prices—could destabilise banks and investment funds, creating strain on the credit market, which the US relies on for funding investments and expansion (Global Financial Stability Report, October 2025). While the tariffs alone would not cause such a thing, they would add to the risk, which has been growing due to another administration policy, such as the Big Beautiful Bill Act signed by Trump. This act creates a trade-off between the short- and the long-term by inducing quick fuelled by lending, which increases the costs of borrowing and creates further inflationary pressure (The Budget Lab at Yale, 2025).

Turkey and Argentina are examples of how short-term political motives can produce serious long-term economic consequences. In Turkey, political pressure to lower interest rates despite rising inflation resulted in the Lira losing over 90% of its value, proving that "central banks under political or fiscal pressure lose their ability to shape expectations and hence to control longer-term interest rates" (Gürkaynak et al., 2022). Similarly, Argentina's history of "fiscal dominance"—where the central bank was treated as a tool to finance government deficits—led to chronic hyperinflation and a total collapse of investor confidence, rendering standard policy tools useless (Buera & Nicolini, 2018). These examples illustrate the danger facing the US if the Federal Reserve were to succumb to similar executive pressure; the resulting loss of credibility would erode the dollar's safe-haven status and force investors to demand higher yields, creating a cycle of instability in the economy and financial markets.

## **Conclusion**

We will explore policy recommendations that aim to ensure the Fed is able to function independently and is safeguarded from the political motives of the current and future administrations.

Firstly, to make sure that the Fed is immune from executive pressure, such as in the example of the attempted firing of Lisa Cook, the Congress must clarify the “for cause” removal standard. This law allows a president to fire a governor for “cause” without a clear definition as to what the cause really is (Conti-Brown, 2018). This creates a risk; a president could argue that high interest rates create a negligence of duty by a Fed governor, giving the president “cause” for terminating a Fed governor’s term. To prevent this, legislation must introduce a clear, concise definition of “cause” that ensures a Fed governor cannot be fired because of policy disagreements or voting records. This definition of “cause” should be limited to criminal convictions, incapacity and similar criteria that makes this “cause” as objective and independent as possible. Analysis shows that without this sense of protection, the independence of the Fed can come under pressure, as the threat of dismissal itself is enough to force compliance to the administration’s policy goals (Margulies, 2024).

At the same time, to prevent political infiltration of the Fed, there should be a cooling-off period for Fed nominees. This policy would prevent individuals who have previously worked in senior executive branches, such as the Council of Economic Advisers in the case of Stephen Miran, from being appointed to the Fed for a considerable amount of time after they leave their position or after their previous term ends. This would prevent an administration from placing loyalists into the monetary policy mechanism that decides on interest rates and ensure that the Fed governors prioritize the long-term wellbeing of the economy rather than the short-term re-election concerns of presidents (Kern & Seddon, 2024). Such a policy would be effective for preventing a similar case to that of Nixon, where political motives result in long-lasting economic impacts. The IMF identifies this institutional independence as an important factor for controlling inflation and states that the separation between government and central bank positions is a must for credibility (Adrian, 2024).

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