
A More Impeachable Offense

By Kerry Pechter *Thu, Oct 3, 2019*

The president's efforts to pressure the Fed chairman into lowering interest rates to boost the stock market may be more abusive than his call to the president of Ukraine.

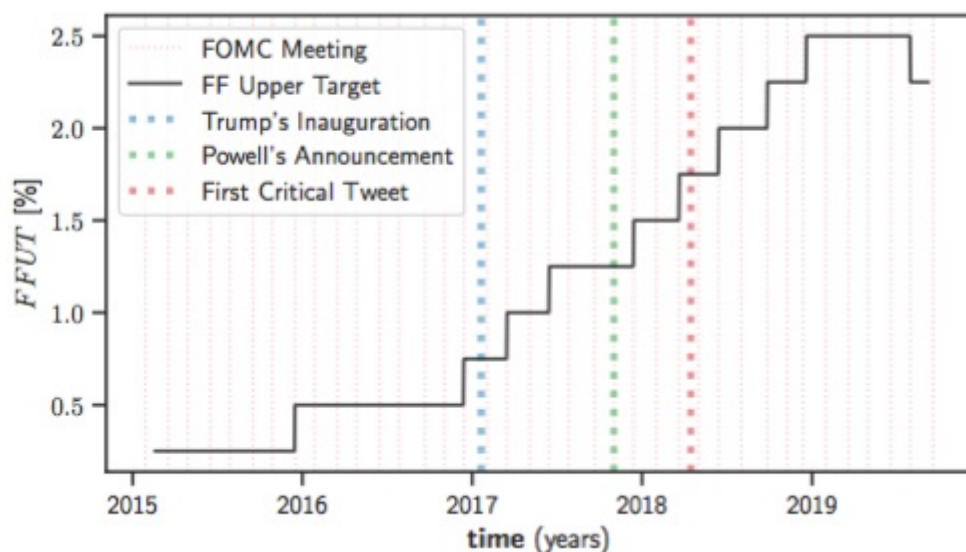


Do President Trump's tweets about U.S. monetary policy have a measurable effect on that policy, on the behavior of market participants, or on the direction of market indices? Analysis of "tick-by-tick fed funds future data and a large collection of Trump tweets criticizing the conduct of monetary policy" by three economists suggests that the tweets do have an effect.

In a new [working paper](#) from the National Bureau of Economic Research, Howard Kung and Thilo Kind of London Business School and Francesco Bianchi of Duke, present "market based evidence" that President Trump's tweets influence "expectations" about monetary policy.

"These collected tweets consistently advocate that the Fed lowers interest rates," they write. "Identification in our high-frequency event study exploits a small time window around the precise time stamp for each tweet. The average effect of these tweets on the expected Fed funds rate is strongly statistically significant and negative, with a cumulative effect of around negative 10 bps."

The authors of the paper conclude that "market participants believe that the Fed will succumb to the political pressure from the President, which poses a significant threat to central bank independence." (See chart from paper below.)



This figure reports the federal funds upper limit target together with four event types: All FOMC meetings, the inauguration of Donald Trump on the on the 20th of January 2017, the nomination Jerome Powell for the Fed Chair position on the 1st of November 2017, and the first critical Tweet by Donald Trump which promotes lower interest rates on the 16th of April 2018.

The authors wrote, “the tweets do not simply affect expectations about the timing of changes that markets were already anticipating, but instead move market expectations about the stance of monetary policy.”

“One of the reasons behind the interest rate cut in July was that markets were anticipating a cut, and not following through would effectively be a stance of contractionary monetary policy,” the paper said. “Therefore, even if the Trump tweets only have a direct impact on market expectations, they can still indirectly affect policy due to how the Fed factors in market expectations when deciding on monetary policy.”

Market participants may no longer believe that the Fed operates independently of the White House, the paper said. Instead, the market may believe that this White House and perhaps future White Houses will keep interest rates ultra-low in order to sustain the bull market in stocks.

President Trump is currently the subject of a congressional investigation into the implications of his telephone conversation last July with the president of the Ukraine. The

transcript of the call appears to show the president encouraging the Ukraine president to investigate a potential Trump political rival, former vice president Joe Biden, at a time when the White House was holding up the delivery of U.S. military equipment to the Ukraine.

Given the remoteness of the Ukraine question, however, and the ambiguities of the transcript, a large part of the American public hasn't recognized the content of the telephone call as an "impeachable" offense. And it may not be, except perhaps to those who see it as a last straw in a parade of unethical actions, including the president's acquiescence to foreign interference in the 2016 election, that were driven mainly by his personal political and financial interests.

It could be argued that the president's efforts to badger or maneuver the Fed chairman into lowering interest rates to boost the stock market and burnish Trump's economic record for the sake of political gain would be a clearer abuse of presidential power—especially to those who have welcomed the gradual rise in rates since 2015.

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