

Funding the Future

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As the [FT has reported](#):

The Federal Reserve has signalled that it could hold interest rates steady at least through September as it defies Donald Trump's repeated calls for the central bank to dramatically lower borrowing costs.

The central bank left borrowing costs unchanged at 4.25 per cent to 4.5 per cent after a meeting on Wednesday, despite an aggressive campaign by the US president to slash borrowing costs to 1 per cent and continuing uncertainty over the impact of his trade policy on the economy.

There are three obvious questions to ask. They are:

- * Was the Fed right to hold rates?
- * Is the Fed right to expect to hold rates?
- * Is there more going on here?

The answers are not clear. The need for action has to be extracted from the noise of the ongoing issues, which are:

- * Trump is doing his best to trash the US economy.
- * Latest US GDP data shows that Trump is having a massively disruptive effect on that economy, which will almost certainly get worse as tariffs really kick in.
- * The US is facing a stock market meltdown.
- * What is required to manage a recession is as yet uncertain, but will almost certainly be serious interest rate cuts.

In principle, my position is clear: in normal times the Fed's rates would be too high for the US economy, and a cut would not only be desirable, but even essential, for the US, for the world economy and most especially for all those states whose liabilities are denominated in dollars, all of whom are desperate for rates to fall.

These are not, however, normal times. They are anything but that. Trump is threatening mayhem, and in the face of that, the Fed is taking time to do anything, and that is what a central banker always does in this situation. That might be forgivable for two reasons:

- * The Fed needs to see what is happening, and they think time will provide that perspective.

* They are fighting a political battle with Trump when few others are, and they are determined to continue to do so.

I think that, in these exceptional circumstances, their actions might be justified.

However strong my desire for cuts, which could lead to similar outcomes in the UK, the US Fed might just be right to be on hold right now.

But, and I cannot stress the point enough, that might be true for the next month or so, but it is not sustainable. The Fed has to decide:

* What they think is happening.

* When they believe the consequences might arise.

* How to signal what they will do about it.

In a world of massive economic uncertainty, I think they have a duty to do that. But will they? The possibility that they might still prevaricate is real, and that will then become mightily problematic. Powell faces the need to make up his mind, and soon.