Trump keeps complaining about the Fed while appointing people who don't agree with his complaints

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President Trump keeps saying he wants the Federal Reserve to ease up on interest rate increases, but he keeps using his actual powers of office to install people who don't agree with his dovish views on monetary policy.

The most recent culprit is Mark Calabria, formerly the head of financial regulation at the Cato Institute. Calabria currently serves as Vice President Mike Pence's top economist but is widely said to be in line for a job **running the Federal Housing Finance Agency**. FHFA's main role is overseeing Fannie Mae and Freddie Mac rather than directly setting interest rates, but because monetary policy touches normal people, most immediately through the mortgage market, his views on monetary issues are relevant.

And — at least as articulated during the financial crisis years — Calabria is very hawkish on interest rates, adhering to the exact opposite perspective of the one Trump says he's trying to push.

It's unfortunate in general that the president of the United States is so bad at his job, doubly unfortunate that **he doesn't have a competent chief of staff** who could help him with this stuff, but especially unfortunate because Trump is correct on the merits about interest rates and the country would be much better off if he got his way. But instead, we are getting Mark Calabria.

Trump versus the Fed, explained

In the normal course of events, when an economy shows sign of weakness, its central bank (like the Bank of Japan, the European Central Bank, the Reserve Bank of Australia, or, in America's case, the Federal Reserve) prints money in order to cut short-term interest rates.

This makes it cheaper for everyday people to borrow money to buy cars or houses, and cheaper for businesses to borrow money to invest in equipment or expansion. Cheap money is great, except too much cheap money can lead to inflation, so to head that off at the pass, central banks sometimes raise interest rates to slow spending and keep things calm.

During the Great Recession, the Fed cut short-term interest rates all the way to zero, and unemployment remained stubbornly high. The Fed then made a few stabs at cutting longer-term interest rates with so-called quantitative easing programs that proved politically controversial.

Eventually, near the end of Obama's term in office, the unemployment rate fell and the Fed began to slowly raise interest rates — a process that has continued now that Trump is in office.

The debate during this cycle of raising rates has been between people (normally called "doves") who think that because the economy was so weak for so long, we ought to keep rates low and try to see how many people who left the labor force can be tempted back in, and others (the "hawks") who are eager to see interest rates return to their historically normal levels now that unemployment is low.

When Obama was still in office, Trump routinely accused the Fed of propping up a stock market bubble with low interest rates. But ever since he became president, Trump has done the opposite and accused the Fed of hurting the market with excessive eagerness to raise rates.

Janet Yellen (Obama's pick for Fed chair), Jay Powell (her replacement, a Republican whom Obama originally put on the Fed Board as a compromise and whom Trump elevated to the top position), and Ben Bernanke (originally George W. Bush's Fed chair but given a second term by Obama) all pursued a generally moderate course with both hawkish and dovish critics. Trump keeps criticizing Powell from a dovish viewpoint, but his appointments don't reflect those views.

Mark Calabria, monetary policy hawk

Mark Calabria, for example, was calling for tighter money way back in December 2010, when the unemployment rate was sky-high and the Fed was rolling out its second round of quantitative easing.

"The primary problem facing our economy is not a lack of demand," he wrote at a time when the primary problem facing the economy was clearly a lack of demand, before warning that "a large surge of inflation is likely to occur quite suddenly, without giving the Fed months or years of warning."

It's eight years later and the surge in inflation is still nowhere near materializing.

The following November, Calabria had moved on to actively urging that the Fed start raising interest rates. The unemployment rate, at the time, was 8.6 percent. But **Calabria argued that higher rates would boost the housing market**. It's a theme he returned to in December 2013, arguing that **"the Federal Reserve should raise rates immediately,"** and then again in a 2014 speaking appearance.

His view on this, as far as I can make any sense of it, is that higher rates would make mortgage lending more profitable, which in turn would lead to more mortgage lending, which would be good for the housing market. But this seems backward. If the government made Christmas trees more expensive, then it's true that the profit margins on Christmas tree sales would rise, but it doesn't follow that vendors would sell more trees. Because of higher prices, consumers would buy either fewer trees or smaller trees and the overall tree market would suffer.

What's clear is that Calabria also kept wrongly predicting — here are some examples from 2012 and again from 2014 — that inflation was going to rise to problematic levels due to low interest rates.

This kind of paranoia about inflation strikes me as incorrect and harmful, but it's not unusual for me to disagree with a Trump appointee about an important policy issue. But it's strange for

Trump to appoint a top housing regulator whose views on the relationship between interest rates and the housing market are the opposite of his. And yet this keeps happening!

Trump is not appointing people who agree with him

One strange thing about Trump's frequently expressed anger at Powell's inclination to moderately raise interest rates is that Powell is behaving exactly how outside observers expected him to behave. The rate increases began under Yellen, and Powell never indicated that he had any big disagreements with Yellen's theoretical framework or basic course of action.

Trump may have decided Powell was a big dove because he really was the most dovish of the small number of people he considered for the job. But that simply goes to show that Trump didn't interview enough people.

If he wanted a more dovish approach, he could have tapped Minneapolis Federal Reserve President Neel Kashkari, Kashkari's predecessor Narayana Kocherlakota, David Beckworth from the Mercatus Center, or even Fed Board member Lael Brainard. If Trump didn't happen to know the names of any well-qualified interest rate doves, he should have asked someone to bring him some names.

Trump has, meanwhile, nominated four people for Fed Board slots to serve alongside Powell. None of them are known to have more dovish views than Powell, and there's at least some reason to believe that a couple of them are more hawkish than Powell.

In a more normal administration, I would conclude that there must be more than meets the eye here and some of these people are secret doves. But this is Trump. And the Powell situation suggests that, on the contrary, things are exactly as they seem — the president is lazy and uninformed and his senior staff is incompetent, so he's tossing up a roster of fairly generic Republicans even though this doesn't align with his stated policy views.

It's a bizarre and silly situation, but that's Trump-era Washington for you.