

When President Reagan Trumped Trump

Long forgotten, and un-remembered especially by hagiographers, are the proposals of the Reagan Administration, advanced by President Ronald Reagan himself, that the Federal Reserve be placed into the Treasury Department.

When the central bank was established, [Reagan told reporters in 1982](#), the Secretary of Treasury was its head, and he asked whether we should reconsider whether such a system might work better than the current one.

Nor was Reagan's covetous eyeballing of the Fed a one-off musing. Rather it was a constant refrain.

In 1984 Reagan's Treasury Secretary Don Regan [reiterated the Reagan proposal](#), as reports circulated there was a Treasury Department study under way regarding the proper placement of the Fed in the government.

The Reagan Administration criticized Volcker often and loudly, particularly resentful of his tight-money policies that cramped economic growth. The compliant and then-prominent nationally syndicated [Evans & Novak](#) op-ed team in 1984 cast Volcker as a Carter Administration Trojan Horse (yes, Volcker was a left-over from the Carter Administration) who wanted to wreck the right-wing.

Then there is this interesting passage from David M. Jones' 2014 book, [Understanding Central Banking: The New Era of Activism](#):

"A second incident—one that, according to Volcker, [Bob] Woodward got right—involved a hush-hush unpublicized meeting at the White House just prior the Reagan's reelection in 1984. Volcker was ordered by [Reagan's Treasury Secretary and Chief of Staff] James Baker to attend this highly confidential meeting, which turned out to have only three participants. Volcker, James Baker, and President Reagan. At this meeting, by Volcker's account, Baker "ordered" Volcker not to tighten Fed policy "under any conditions" prior to Reagan's reelection (quoted in Woodward 2000). This unprecedented order by Baker in the presence of Reagan was, of course, totally inappropriate."

Those “threats” probably had no effect on how monetary policy was conducted. When Reagan “ordered” Volcker, the Fed Funds rate was 11.5%, unemployment stood at 7.5% and core PCE inflation was 4%.

By the time Volcker left three years later, in mid-1987, the Fed Funds rate was down to 6%, unemployment stood at 6% and inflation was 3%.

Before the 1984 election, when Reagan was so “worried”, real growth was 8% year-over-year, the last hurrah of the recovery from the 1981-82 recession. Three years later, when Volcker left, real GDP growth was back to the long run trend of 3.4% year-over-year.



Plaza Accord

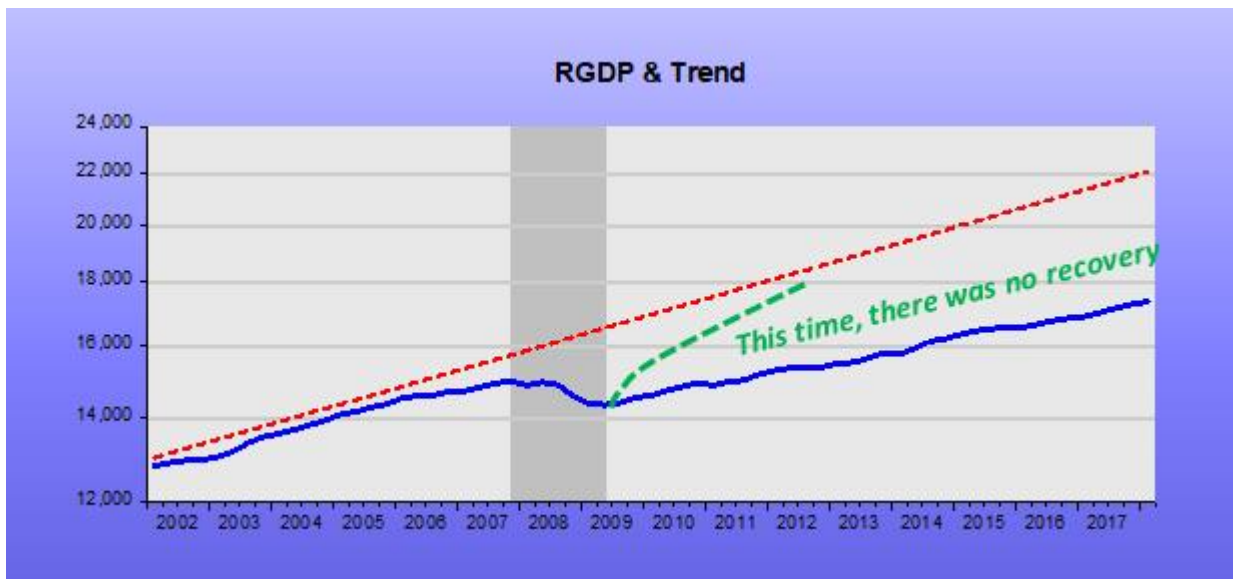
And don't forget the Reaganaut's September 1985 Plaza Accord, an agreement between the governments of France, West Germany, Japan, the [United States](#), and the United Kingdom, to [depreciate](#) the U.S. dollar in relation to the [Japanese yen](#) and German Deutsche Mark by intervening in currency markets. The dollar fell by more than 40% against the Yen and the DM over the next 15 months.

Trump?

Compared to the Reaganauts, on monetary policy Trump is playing Teletubby tiddlywinks in his present White House reality show. An offhand comment to the press that the Donald would prefer lower interest rates? That's laughable!

The situation today is very different from that in 1984. Now the

economy got “dumped” and stayed “dumped” since, unlike 36 years ago there has been no recovery.



Let’s not forget there are four empty seats on the seven-member Fed Board of Governors. Just as in indications to the Supreme Court, Trump can try to have his “whims” reflected at the Fed Board.

The Fed’s fallback position is its [mandate](#):

The Congress established the statutory objectives for monetary policy—**maximum employment, stable prices, and moderate long-term interest rates.**

With “maximum employment” being synonymous (according to the Fed) with a low unemployment rate, with inflation close to target and 10-year bond yields below 3%, the Fed is “comfortable” with its performance!

Trump will never think of doing it, but if he wanted to have a lasting influence over how monetary policy is conducted, he could try to get the Congress to change the Fed’s mandate.

Instead of a “wish list”, it could make the Fed be precise and pursue a stable level target for nominal spending (NGDP).
