

Trump wants the Fed to lower rates like the ECB but overlooks one (or two, or three) important things

By Jesper Rangvid

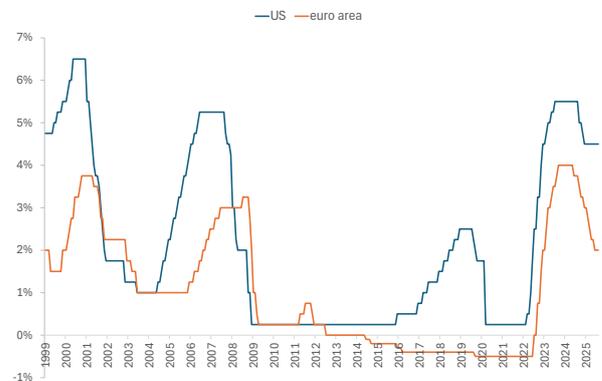
President Trump has made no secret of his dislike for Federal Reserve Chair Jerome Powell, repeatedly using sharp, disparaging nicknames such as “Mr. Too Late,” “Numbskull,” and “Knucklehead,” and even branding him “grossly incompetent.” His irritation stems from the Fed’s refusal to heed his calls for US interest rates to be cut to euro-area levels. Yet Trump overlooks a crucial point: US rates have long been higher than those in the euro area because of fundamentally different economic conditions. For that reason, reducing Fed rates to match Europe’s would be ill-advised.

The target range for the federal funds rate currently stands at 4.25%–4.5%, a level US President Donald Trump considers far too high. He has repeatedly and loudly demanded that the Federal Reserve cut rates, often pointing to the European Central Bank (ECB) as an example.

Since both central banks began easing a year ago – following the sharp rate hikes imposed to tackle the post-pandemic inflation surge – the ECB has reduced rates by more than the Fed. At present, the ECB’s key policy rate, the deposit facility rate, is 2%, more than two percentage points below the fed funds rate, as also shown in Figure 1.

Figure 1. US and euro area monetary policy interest rates: The Federal Funds Rate Target (lower limit) and the rate on ECB’s deposit facility.

Source: Datastream via LSEG and J. Rangvid.



In April, responding on social media to an anticipated ECB rate cut, Trump wrote [\(link\)](#): “Too Late (that is, Fed Chair Powell) should have lowered Interest Rates, like the ECB, long ago, but he should certainly lower them now.” He added: “Powell’s termination cannot come fast enough!” Then in June, Trump again invoked the ECB to argue for lower US rates, posting [\(link\)](#): “‘Too Late’ Powell must now LOWER THE RATE. He is unbelievable!!! Europe has lowered NINE TIMES!”

Leaving aside Trump’s faulty arithmetic – the ECB had lowered rates seven times by 4 June when Trump sent out his post, from 4% to 2.25% in 25-basis-point steps – the point is clear: he repeatedly compares Fed rates to ECB rates as the basis for demanding cuts from the Fed. But is this a fair comparison?

US rates have long exceeded European rates

The key point I want to make in this analysis is that US interest rates have been consistently higher than those in the euro area for well over a decade, dating back to 2012, and before that were usually higher

too. Higher US interest rates are thus not unique to Powell's tenure; the same held true under Fed Chairs Greenspan, Bernanke and Yellen.

Figure 2 shows the difference between the Fed's policy rate and the ECB's deposit facility rate since the ECB's inception in 1999.

Figure 2. Difference between US and euro area policy rates, cf. Figure 1.

Source: Datastream via LSEG and J. Rangvid.

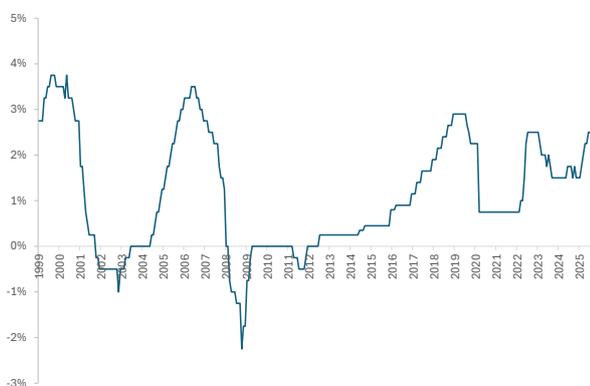


Figure 2 (and Figure 1) shows that US interest rates have generally been higher than those set by the ECB. Between January 1999 and August 2025 – a span of 320 months – US rates were lower than ECB rates for only 41 months, namely in the aftermath of the dot-com bubble, at the height of the 2008 global financial crisis, and briefly in 2011. For the remaining 279 months (around 87% of the time), US rates have been higher. In other words, there is nothing unusual about US rates exceeding European ones, as they do now.

It is not only central bank policy rates that have shown this pattern – market interest rates have done so as well. Figure 3 plots the yields on 10-year government bonds in Germany and the United States. The two moved closely in step until around 2013,

after which a persistent divergence became apparent.

Figure 3. Yields on US and German 10-year government bonds.

Source: Datastream via LSEG and J. Rangvid.



Since 2013, US long-term interest rates have consistently exceeded German rates, typically by around 1.5 percentage points.

In conclusion: (i) US interest rates have been higher than European rates for many years, and (ii) this is thus not a distinctive feature of Powell's tenure – nor, therefore, a reason to disparage him. Rather, there appear to be persistent structural factors keeping US rates elevated relative to European ones.

Of course, the fact that US interest rates have historically been higher than those in Europe does not in itself justify maintaining that gap today. Monetary policy decisions should be grounded in careful evaluations of current economic conditions and their implications for inflation. However, the persistent divergence between US and euro area rates reflects fundamentally different economic structures. For this reason, lowering US rates simply because European rates have fallen would be misguided.

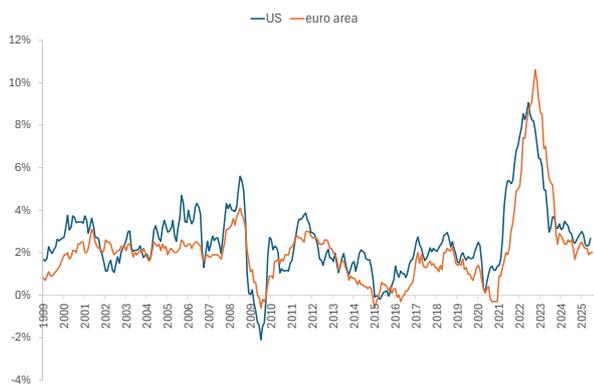
Why have US rates been persistently higher than German/European rates?

Higher US interest rates could stem from higher US inflation, higher US real interest rates, or a combination of the two.

Figure 4 shows that US and European inflation have tracked each other closely for many years, typically with US inflation being a little higher than euro area inflation, as today. This suggests that the gap in interest rates is not only due to higher inflation in the United States.

Figure 4. Inflation rates (CPI inflation) in the US and the euro area.

Source: Datastream via LSEG and J. Rangvid.



On the other hand, the underlying structural real interest rate in the United States has been rising relative to that in Europe since 2012 – the point at which US short- and long-term rates began to drift higher relative to European ones, as Figures 2 and 3 showed.

Figure 5 shows structural short-term real interest rate (r^*) for both the euro area and the US (I draw on estimates from the New York Fed ([link](#)), as they apply the same methodology to both regions, such that the rates can be compared consistently. Also, these estimates are regularly updated).

Figure 5. Estimates of r^* for the US and the euro area.

Source: New York Fed and J. Rangvid.

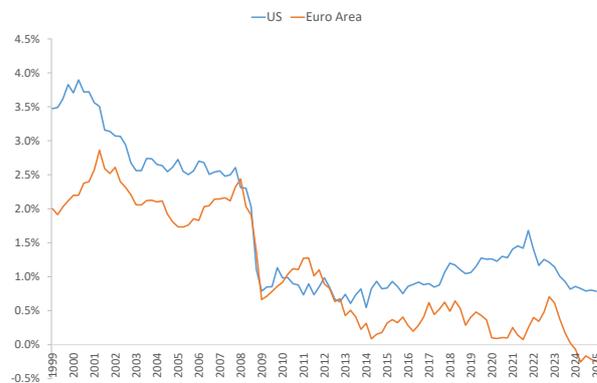


Figure 5 shows that in 2012, real structural interest rates (r^*) in the euro area and the US were broadly similar. Since then, the euro area's r^* has declined, while the US r^* has remained more or less unchanged. As a result, the gap between the two has been steadily widening since 2012.

What explains this divergence? Equilibrium real interest rates are heavily influenced by underlying economic growth, as I explain in my book ([link](#)). The New York Fed also publishes estimates of trend economic growth, which it uses in calculating r^* . Figure 6 illustrates the difference between US and euro area trend growth.

Figure 6. Difference between trend growth rates for the US and the euro area.

Source: New York Fed and J. Rangvid.



Since rates began diverging in 2012, underlying US trend growth has risen relative to Europe's. In essence, higher US interest rates thus largely reflect a stronger US economy. By the same token, there are solid reasons for lower rates in the euro area – namely, that its economy has underperformed relative to the United States. We can debate the causes of this stronger US growth ([link](#)), but most economists agree that it exists, whatever the underlying reasons.

In summary, the underlying real short-term interest rate in the US is about one percentage point higher than in the euro area. US inflation is also roughly one percentage point higher. Taken together, this suggests that the US monetary policy rate should be around two percentage points above the euro area rate—just as it currently is.

Conclusion

President Trump has repeatedly attacked Federal Reserve Chair Jerome Powell for failing to cut US interest rates as much as the European Central Bank has lowered European rates. Yet a closer look shows that this is not a new development. Both policy and market rates have been trending higher in the US relative to Europe for years, not least because of stronger underlying US growth. If Powell were to follow Trump's demands and reduce US policy rates to European levels, the result would likely be higher inflation, as the policy rate would fall below its natural level. In short, the Fed best serves the American public by resisting political pressure to simply “follow the Europeans.”