

WSJ Print Edition



Miran's Rate-Cut Logic Doesn't Add Up

STREETWISE |

By James Mackintosh

After voting for a supersize rate cut last week, Stephen Miran has now provided the intellectual cover for President Trump's calls for drastically lower interest rates. If Miran is right, everyone else is wrong—not just the Federal Reserve, but investors and independent economists, too.

Miran, who joined the Fed board just before the rate cut and is on leave of absence as the head of Trump's Council of Economic Advisers, wants rates almost 2 percentage points lower, at 2.5%—against the range of 4% to 4.25% following last week's reduction.

He set out his case in a speech on Monday, focused on changes made by the Trump administration. Lower immigration, less government borrowing and lower regulation all justify lower long-run rates, and he argues Trump is delivering all three. He plugs his estimates into the widely used Taylor monetary-policy rule to work out where current rates should be: a lot lower.

If he's right, the markets need massive moves. If Bonds, the currency and stocks would all need to adjust a lot to fall into line with an economy that, on Miran's view, is struggling against a far-too-hawkish Fed.

Bonds are the most obvious. Miran argues Trump's policy changes mean that equilibrium real long-run rates, a theoretical rate known as r-star, are down more than a percentage point. The price of 10-year

Treasury inflation-protected securities should be about 10% higher if yields drop to meet Miran's estimate. If.

Lower bond yields and an easier Fed should mean a sharply weaker dollar, assuming they aren't mirrored by other countries—which, after all, haven't implemented Trump's policies.

The combination of lower borrowing costs and a weaker currency ought to be great for stocks. Forget the worries about shares already being very expensive and major indexes being at new highs. They should be much higher, if Miran is right. If.

Miran makes some reasonable points. An economy with lower, or zero, immigration should have less need for investment, so lower rates. If government borrowing were lower, rates could also be lower. And supplyside reforms make the economy more efficient, and so less inflationary, again justifying lower rates.

But the policy changes that Miran cites don't necessarily deliver as promised, or have side effects.

The immigration clampdown has hurt some employers, but it could also lead to labor shortages and higher wages, and feed through to higher inflation.

Higher taxes help control the deficit, but over time tariffs, the main tax rise, should generate less and less revenue as customers and businesses shift purchasing and production to avoid them.

And the effects of supplyside changes such as deregulation are notoriously unpredictable. Miran ignores the increased government intervention in the economy under Trump, such as the partial nationalization of chip maker Intel.

On top of that, there are multiple variables and tweaks in the Taylor rule for monetary policy that Miran relies on. The Atlanta Fed comes up with rate recommendations from 4.1% to 6.25% depending on the measures used for spare capacity in the economy and the estimate for r-star. Knock off 1 to 2 percentage points for Trump's changes and sure, the lowest possibility is about where he thinks rates should be, but the highest is still at the top of the current rate range.

There are good reasons not only to doubt that the Fed should be easing, but to think that rates are too low. Miran himself argued last year that r-star was higher than the Fed thought, in part due to heavy AI investment and deglobalization—both of which have only gained strength since. Yet he conveniently ignored both factors in this week's speech.

The economy has been growing surprisingly fast, on track for more than 3% growth at an annual rate in the third quarter, according to the Atlanta Fed's GDPNow estimate.

Markets are booming: Stocks, corporate bonds and gold have all been doing extremely well. Businesses and households are borrowing steadily more from banks, rather than being put off by high rates. True, the jobs market has weakened. But since inflation has been rising again, it's far from obvious that rates need to be lower.

It could just be that Miran's argument needs time to ripen. Monetary policy takes effect with long and variable lags, and Trump's haphazardly implemented changes will take time to filter through the economy too.

For now, though, the markets don't buy Miran's intellectual cover. Neither do I.

Copyright (c)2025 Dow Jones & Company, Inc. All Rights Reserved. 9/25/2025
Powered by TECNAVIA

The following is a digital replica of content from the print newspaper and is intended for the personal use of our members. For commercial reproduction or distribution of Dow Jones printed content, contact: Dow Jones Reprints & Licensing at (800) 843-0008 or visit djreprints.com.
