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Trump attacks Fed chair Powell

22 April 2025

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US President Trump has once again sharply attacked Jerome Powell, chairman of the Federal Reserve, calling on him to cut interest rates. The director of the National Economic Council said that the White House was looking for ways to replace Powell. The attack on the Fed's independence has triggered significant market reactions. We explain the background.

Trump attacks Powell

Donald Trump has sharply attacked Federal Reserve Chairman Jerome Powell on Truth Social. With a view to last week's ECB's rate cut, Trump said that Jerome 'Too Late' Powell should have lowered key interest rates long ago. Therefore, Powell's termination cannot come soon enough. [For the complete quotes, see box below]

Yesterday, on 21 April, Trump followed up. Preemptive interest rate cuts were being called for by many, he said, as there was hardly any inflation left. However, growth could slow down if 'Mr Too Late' (Jerome Powell), a 'major loser', did not cut interest rates immediately. Powell is always too late, Trump said, except during presidential election campaigns, when he cut interest rates to support Kamala Harris' election.

In a press briefing, Kevin Hassett, director of the National Economic Council, said that the White House is exploring ways to replace Powell.

The financial markets reacted with concern to this attack on the Fed's independence: stocks came under pressure, yields rose and gold climbed to almost $3,500 an ounce.

Why is Trump doing this?

We see two possible motives for the president's actions:

- Trump could be setting Powell up as a scapegoat. Trump's aggressive tariff policy, his unstructured approach to government spending cuts and layoffs, and his generally unpredictable economic policy have massively increased uncertainty for the economy. It is therefore to be expected that companies will hold back on investment and consumers will be cautious about spending on big-ticket items. Economic growth is likely to slow significantly and unemployment to rise, at least moderately. According to Trump's interpretation, however, the Fed would be to blame for this, and not his own policies.

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- Trump actually wants to force a change in monetary policy in the hope that rapid interest rate cuts will cushion the negative effects of his tariff and economic policies and thus provide his policies with the necessary support.

However, the latter would probably only be possible under a different Fed leadership. After all, Jerome Powell has taken a clear position on this issue. The Fed's primary task is to prevent the tariff increases from triggering a prolonged period of high inflation and to keep inflation expectations anchored. The Fed learned this lesson from the experience of the 1970s, when overly loose monetary policy turned what were supposed to be ‘transitory’ oil price shocks into ‘high inflation’.

Can Trump fire Powell?

When considering whether Trump can fire Powell, the first question is which job Powell would lose. Powell wears three hats: he is one of seven members of the Board of Governors, Chairman of the Board, and Chairman of the Federal Open Market Committee. [1]

Powell as a member of the Board

According to Section 10.2 of the Federal Reserve Act, the US president can dismiss a member of the Board “for cause”. Although this term is not precisely defined, the vast majority of experts would argue that differences of opinion regarding the direction of monetary policy would not constitute sufficient cause. A precedent was set in 1933 when President Roosevelt attempted to dismiss Federal Trade Commission member William Humphrey for not sufficiently supporting his “New Deal” policy. The Supreme Court ruled at the time that Roosevelt could not simply dismiss Humphrey for political reasons.

However, this does not rule out the possibility that the Supreme Court could view this issue differently today. Indications of a new perspective could be found in various ongoing proceedings unrelated to the Fed, in which Trump has dismissed executives from other agencies and they have fought back.

Powell as chairman of the board

The law only refers to membership of the board. If Powell's dismissal as a board member encounters insurmountable legal obstacles, Trump could remove him as chairman of the board. The Federal Reserve Act is silent on the requirements for doing so, which increases the legal uncertainty. Jerome Powell would then likely file a lawsuit with the Supreme Court due to the case's overwhelming importance for the Fed's independence and remain on the board.

Trump would also probably have to transfer the chairmanship to one of the other current board members. This is because the next scheduled replacement of one of the seven board members, where the president could appoint a person of his choice to the board who could then take over the chairmanship, is not due until January 2026.

Powell as chairman of the Open Market Committee

Even if Powell were to lose the chairmanship of the board, he could still head the Federal Open Market Committee (FOMC), which, unlike the board, makes monetary policy decisions. The twelve FOMC members consist of the seven members of the Board, the president of the New York Fed and, on a rotating basis, four of the eleven heads of the other regional Fed banks (the remaining seven regional presidents participate in the meetings without voting rights). The chair of the Federal Open Market Committee is elected by the FOMC members. Trump would therefore have no direct influence here.

Traditionally, the FOMC chair is the chair of the Board. However, the FOMC could also appoint another of its members, for example, retain Powell even if he loses the chairmanship of the Board. This could lead to a situation with two competing Fed chiefs: a board chair appointed by Trump and an FOMC chair elected by the Open Market Committee, who would continue to explain interest rate decisions at press conferences.

Why is the Fed's independence important?

In recent decades, it has become standard practice worldwide for legislators to assign a target to the central bank (usually price stability, in the case of the Fed a dual mandate consisting of price stability and maximum employment), but the central bank decides independently how to achieve this target.

The reason for this is ultimately the different time horizons of politicians and central banks. Politicians always have an incentive to improve their own prospects before elections by pursuing loose monetary policy, regardless of the longer-term costs of such a policy. Such inappropriate policy leads to a political business cycle, makes it more difficult to keep inflation low, and thus increases risk premiums on the financial markets. In extreme cases, political interference in central bank decisions can lead to developments such as those seen in Turkey, with extremely high inflation rates.

By granting the central bank independence, politicians are giving up such temptations – and thus enabling more stable long-term economic development, which also increases planning security for companies and households. This does not mean that the central bank is completely detached from the political environment. After all, the president (with the approval of the Senate) is still responsible for appointing the Fed's Board members. In addition, the legal framework can also be amended. The point is, however, that such changes usually take a considerable amount of time and thus make it difficult to use the Fed for the government's political purposes.

How does the Fed react?

The Fed has fought hard for its independence over decades and sees it as an appropriate response to the abuse of the Fed for political purposes by the Johnson and Nixon administrations, which, according to general opinion, contributed significantly to the high inflation of the 1970s and early 1980s. It will therefore find it difficult to back down. A rapid interest rate cut is not to be expected here. After all, this would be interpreted by the markets as the Fed caving in. However, this also puts the Fed at risk of reacting too late to a possible economic slowdown. And this could further exacerbate the conflict with the White House. Jerome Powell has thus been placed in an unenviable position by Donald Trump.

We believe that uncertainty about the Fed's independence is likely to persist for some time. Donald Trump will stick to his demand for interest rate cuts and continue to attack the Fed if it does not lower interest rates soon and quickly.

If the economy does indeed weaken, the dispute could even intensify. However, Donald Trump is unlikely to take things to extremes and actually fire Powell. This would probably have massive market implications and could trigger a flight from the dollar and possibly even a financial crisis. Trump will probably not want to risk this.

Box: Donald Trump on Truth Social

"The ECB is expected to cut interest rates for the 7th time, and yet, “Too Late” Jerome Powell of the Fed, who is always TOO LATE AND WRONG, yesterday issued a report which was another, and typical, complete “mess!” Oil prices are down, groceries (even eggs!) are down, and the USA is getting RICH ON TARIFFS. Too Late should have lowered Interest Rates, like the ECB, long ago, but he should certainly lower them now. Powell’s termination cannot come fast enough!"

(17 April 2025, 12:12 EST)

"“Preemptive Cuts” in Interest Rates are being called for by many. With Energy Costs way down, food prices (including Biden’s egg disaster!) substantially lower, and most other “things” trending down, there is virtually No Inflation. With these costs trending so nicely downward, just what I predicted they would do, there can almost be no inflation, but there can be a SLOWING of the economy unless Mr. Too Late, a major loser, lowers interest rates, NOW. Europe has already “lowered” seven times. Powell has always been “To Late,” except when it came to the Election period when he lowered in order to help Sleepy Joe Biden, later Kamala, get elected. How did that work out?"

(21 April 2025, 15:41 EST)

(back to text)

[1] This Brookings **report** points this out. [back to text]

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This report was completed 22/4/2025 10:57 CEST and disseminated 22/4/2025 10:57 CEST.

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