Can Trump force the Fed to cut rates?

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The US Federal Reserve will not cut its key interest rates next week, even though the US economy contracted in the first quarter and President Trump is calling for a looser monetary policy. This could reignite the conflict with the White House. We analyze whether this jeopardizes the Fed's independence and what the consequences of a more accommodative central bank would be.

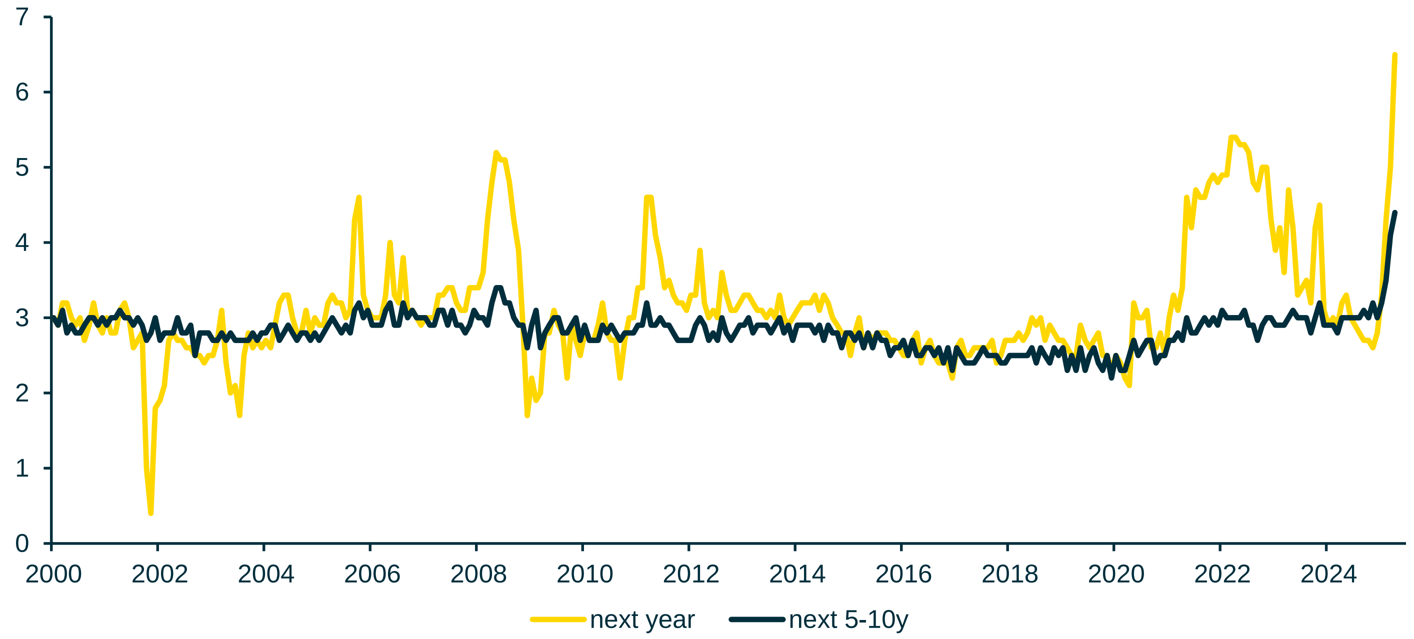
Fed will not cut interest rates next week...

Next week, the Federal Reserve will decide on key interest rates again. At first glance, the latest data suggests that the Fed will resume the rate cuts that have been on hold since the beginning of the year. The US economy contracted in the first quarter. At the same time, inflation measured by the Fed's preferred consumer price index (PCE) fell to 2.3% in March, which is not far from the central bank's 2% target.

Nevertheless, we do not expect the Fed to reduce key rates next week. The reported weak growth is likely to paint too bleak a picture of the actual situation. After all, the labor market in particular remains quite strong, as evidenced by the continued very low unemployment rate of 4.2%, and shorter-term indicators such as weekly initial jobless claims also show no signs of an economic slump. Furthermore, although inflation has fallen recently, private households' inflation expectations have risen significantly due to the tariff policy; unlike during the pandemic, they now do not expect only a temporary inflation spike, but rather a much stronger rise in prices in the long term (Chart 1).

Chart 1 - Consumers' inflation expectations jumped

Consumer sentiment survey: median inflation expectations 1 year and 5-10 years ahead, in %



Source: University of Michigan, S&P Global, Commerzbank Research

... and is likely to remain on hold for some time

The Fed wants to avoid inflation expectations becoming entrenched at this high level at all costs. The consequences of such a development were evident in the 1970s. According to tape recordings, US President Richard Nixon formally pressured then Fed Chairman Arthur Burns to pursue a loose monetary policy [1]. Burns did not withstand this pressure, thus paving the way for high US inflation in the 1970s. This was one of the defining episodes in the Fed's history and continues to influence monetary policy thinking. The Fed will at least want to see evidence that the tariffs are only having a temporary effect on inflation.

However, it is also clear that the Fed is increasingly concerned about growth. It will therefore cut interest rates as soon as it can be reasonably sure that inflation is not spiraling out of control. But it is probably too early for that at the June meeting. We still consider our forecast that the Fed will not decide on the next interest rate cut until September to be plausible. We expect further rate cuts in December and March 2026. The relatively slow pace is due to the fact that the central bank cannot fully switch to a looser monetary policy because of the inflation risks.

... which Trump will not like

The Fed's wait-and-see approach and the foreseeable slow pace of interest rate cuts will not be met with enthusiasm by President Trump. Two weeks ago, he sharply attacked Fed Chairman Jerome Powell on social media for the Fed's inaction and even threatened to fire him:

> *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!*

On April 21, Trump followed up and again called for rapid interest rate cuts, citing falling inflation:

> *"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.*

What is stopping Trump from firing Powell?

Trump takes the view that the president can fire any member of the executive branch, including the head of an independent agency [2]. If Trump does indeed attempt to fire Jerome Powell, Powell would certainly take legal action against him due to the overwhelming importance of this case for the independence of the Fed. Powell would base his case on the Federal Reserve Act and a precedent from the 1930s, which, in the opinion of many experts, does not allow dismissal on the grounds of differences of opinion regarding monetary policy (see our **Economic Briefing** of April 22, 2025).

Furthermore, there is no guarantee that replacing the chair of the Federal Reserve Board alone would bring about an immediate change in monetary policy in line with Trump's wishes. This is because the Fed's monetary policy is determined by the Federal Open Market Committee (FOMC), which consists of the seven governors, the president of the New York Fed and, on a rotating basis, four other regional Fed presidents. If Trump were to successfully appoint a new board chair, he would only have one vote on the FOMC.

...above all, the risk of an extremely negative market reaction

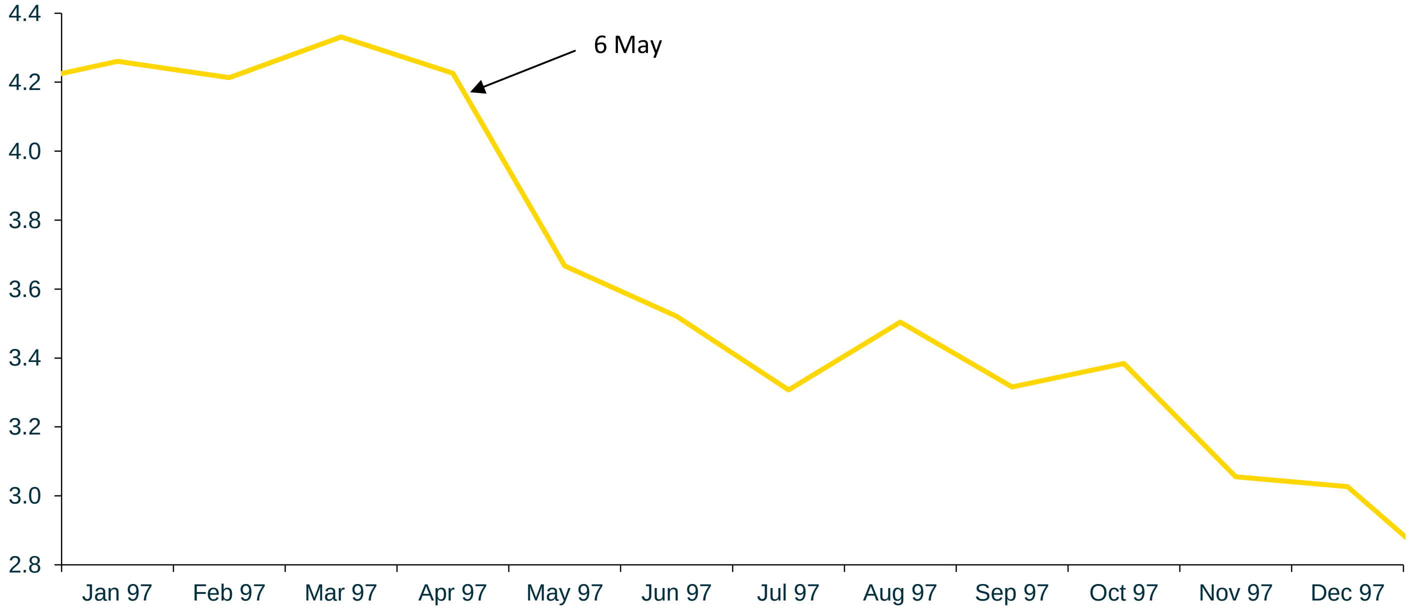
However, the most important argument against firing Powell is likely to be the financial markets. After all, the past few weeks have shown that slumping stock and bond markets do not fail to make an impression on Donald Trump. A direct attack by the president on the Fed's independence would in all likelihood massively hit bond markets. After all, financial market players would have to assume that controlling inflation would only play a subordinate role in the future.

The markets would then certainly price in significantly higher inflation expectations, which would cause bond yields to rise sharply. The extent to which this could happen can be seen from a counterexample, namely the Bank of England's transition to independence. In its government program on May 6, 1997, the newly elected Labour government announced that, starting in 1998, the central bank would be able to set interest rates independently in order to achieve the inflation target. Previously, the UK Treasury had the final say. As a result, inflation premiums on gilts fell sharply (Chart 2). Whereas the market had previously priced in inflation of 4.2% over ten years, inflation expectations fell by more than one percentage point by the end of 1997.

With debt standing at $30 trillion, a one percentage point rise in US yields would cost $300 billion a year in additional interest payments in the medium term – equivalent to 6% of the US federal government's expected revenue for this year. At the same time, the dollar would face a further loss of confidence. This in turn would increase the risk of a balance of payments crisis – hitherto unthinkable for the US. The expected massive financial market reactions could finally push the US economy, which is already under pressure, into crisis. This would make it extremely difficult to continue implementing Trump's agenda.

Chart 2 - Inflation expecations dropped as Bank of England became independent

UK inflation expectations in ten years, measured as the difference between implied forward nominal rates on conventional gilts ten years hence and implied real rates on index-linked gilts ten years hence. End-of-month data in %



Source: Bank of England, Commerzbank Research

Trump will therefore focus on Powell's successor

An open attack on the Fed's independence would therefore hardly be in Trump's interest. A more promising approach would be to gradually replace members of the Fed Board. This would probably meet with less resistance within the Fed than a direct attack involving an attempt to dismiss a sitting board chairman.

Next year, President Trump will have the opportunity to replace some members of the Federal Reserve Board. Governor Kugler's term expires on January 31, and Jerome Powell's four-year term as chairman of the board expires on May 25, 2026 (Powell's term as governor runs until the end of January 2028, but a chairman whose term is not extended usually also resigns as governor). President Trump will then nominate a new chairman. According to the government, the selection process is expected to begin this fall.

Trump can either appoint one of the five remaining board members as chair or one of the "new" governors. The Senate must then confirm the appointment. The Republicans also have the necessary majority in the Senate, with 53 of the 100 seats. However, the senators are unlikely to rubber-stamp every candidate. During Trump's first term, the nomination of Judy Shelton failed because many senators considered her monetary policy views too extreme.

Even if Trump is therefore likely to refrain from nominating candidates who are too difficult to get through the Senate, he will still choose someone who stands for a more active monetary policy (for an overview of the candidates, see box). Trump accuses the Fed, and Jerome Powell in particular, of always being too late. He argues that the Fed raised interest rates too late to combat inflation and is now too slow to cut them again to safeguard growth. Trump also wants to cut back the Fed's powers to its core responsibilities; in his view, the central bank is interfering too much in areas that are actually the responsibility of the government.

BOX: Who is in the running to succeed Powell?

Kevin Warsh. Warsh was already governor of the Fed from 2006 to 2011. At that time, he advocated a more restrictive policy and spoke out against bond purchases to stimulate the economy ("QE"). Warsh was already being discussed as chairman of the Federal Reserve Board during Trump's first term, but Trump opted for Powell at the time. In a recent opinion piece, Warsh criticized the Fed, accusing it of overstepping its original mandate, citing social inclusion and climate change and blaming the Fed's bond purchases for fueling unchecked government debt. Many observers see this article as a letter of application for Powell's successor.

Kevin Hassett. Hassett is currently director of the National Economic Council at the White House. He advised George W. Bush, John McCain, and Mitt Romney on economic issues during their presidential campaigns. In this respect, his history tends to reflect traditional Republican positions. However, he now regularly defends the president's latest moves in economic policy.

Christopher Waller. Waller has been a member of the Fed Board since December 2020. In several speeches, Waller has distanced himself from Powell's line and hinted that he would be in favor of interest rate cuts to combat a possible economic slowdown. In his view, the higher tariffs will only have a temporary impact on inflation. Powell, on the other hand, emphasized the risks of this price surge for long-term inflation expectations.

Other names mentioned include the 84-year-old economist Arthur Laffer and TV economist Larry Kudlow. However, they are likely to be outsiders.

What does this mean for the future of the Fed?

The independence of US monetary policy is under pressure from two sides: in the short term from Trump's verbal attacks and his attempts to push the Fed into cutting interest rates, and in the longer term from the gradual replacement of Board members by the president. Not least to save face, the Fed will remain steadfast for a few more months and not cut interest rates. Politically, however, this is becoming increasingly difficult. This is because an economic downturn is becoming increasingly apparent. If the Fed fails to respond or responds too late, it risks losing the support in Congress that it has painstakingly built up over recent years. It will therefore ultimately opt for a pragmatic approach and lower key interest rates. This threatens to erode the Fed's independence in the longer term. In the longer view, this argues for higher US bond yields and a weaker dollar.

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[1] "How Richard Nixon pressured Arthur Burns", Journal of Economic Perspectives, Vol. 20,

No. 4, 2006, pages 177 - 188. [back to text]

[2] This is based on the legal theory of the unitary executive, which grants the president sole authority over the executive branch. This is based on Article II, Section 1 of the US Constitution ("The executive Power shall be vested in a President of the United States of America"). [back to text]

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