7-23-25

WSJ Print Edition

Powell can't be fired, but GOP senators must carefully vet his eventual successor.

POLITICS & IDEAS

An Independent Fed Is Sacrosanct

Treasury Secretary Scott Bessent persuaded President Trump not to fire Federal Reserve Chair Jerome Powell by citing the negative effects on financial markets, the Journal reported. Mr. Trump responded Sunday on Truth Social: "Nobody had to explain that to me. I know better than anybody what's good for the Market, and what's good for the U.S.A." Broadening the point, he added that "People don't explain to me, I explain to them!"

The next morning, one of the advisers whose explanations are unnecessary went on CNBC to continue the administration's attack on the Fed. "Has the organization succeeded in its mission?," Mr. Bessent asked rhetorically. "If this were the [Federal Aviation Administration] and we were having this many mistakes, we would go back and look at why has this happened."

Clearly, Mr. Powell's insistence on looking at the inflationary possibilities of tariffs before leaping into lower interest rates is annoying Mr. Trump and his top aides. But the president can't fire him. The Supreme Court has made clear that it will exempt the Federal Reserve Board from its steady broadening of presidential power over inde-pendent agencies. In an order issued in May, the Court wrote, "The Federal Reserve is a uniquely structured, quasi-private entity that follows in the distinct historical tradition of the First and Second Banks of the United States."

Policy disagreements aren't enough to satisfy the legal requirement for firing Mr. Powell. Despite the president's transparent campaign to morph the Fed chairman's management of the board's headquarters renovation into a fraud charge that would meet the requirement, the odds are that Mr. Powell will serve out the remainder of his term, which ends in May. The real issue is what comes next.

Mr. Trump wants the next Fed chair to cut interest rates, immediately and dramatically. He should know (but may not) that the Federal Reserve Board controls only shortterm interest rates. Rates for long-term borrowing, which affect corporations and families looking for mortgages, are determined by the market. If investors believe that cuts in short-term rates will spur inflation, they will demand higher rates on long-term debt, throttling economic growth.

We saw this dynamic at work half a century ago, when Fed Chairman Arthur Burns buckled under pressure from President Nixon to cut rates before the 1972 election, triggering nearly a decade of inflation that raged until a new chair--man, Paul Volcker, raised interest rates to record levels at the end of the 1970s and kept them there for years. Price stability was eventually restored, but only after what was then the worst economic downturn since the Great Depression.

This is more than an anecdote. Decades of research concludes that modern market economies need independent central banks to counterbalance inflationary pressure from governments eager to * Note

achieve short-term economic results. In a widely cited 1993 article, economists Alberto Alesina and Lawrence Summers showed that, compared with the alternatives, these banks reduced both the level and the variability of inflation without suppressing economic growth or raising unemployment. Other studies have found that expectations of higher inflation have negative effects on the economy—and that independent central banks help reduce these expectations.

The Federal Reserve Board can never be completely independent. As my Brookings colleague Sarah Binder and co-author Mark Spindel have argued, Congress has always shaped the Fed's goals and powers, and congressional support for its policies has been crucial. Congress's codification of the Fed's "dual mandate"— to pursue both maximum employment and low, stable inflation—came in response to the stagflation of the 1970s and continues to guide Fed policy today. Even when presidents go to war against the Fed, as President Harry Truman did in 1951, congressional sentiment can decisively influence the outcome.

Within these broad guardrails, the Federal Reserve Board enjoys substantial freedom. The question is whether this can survive in today's circumstances. When Mr. Trump floated the idea of firing Mr. Powell, he received a mixed reaction from Republican senators. But what will they do when, as seems likely, his nominee as the next chairman has pledged his loyalty to the president's agenda of lower interest rates, come what may?

The continued independence of the Federal Reserve— the linchpin of the global as well as the U.S. economy—rests on the willingness of a critical mass of Republican senators to exercise independent judgment in vetting the president's choice. After their abject surrender on such nominees as Pete Hegseth, Tulsi Gabbard, and Robert F. Kennedy Jr., it's hard to be confident that they will. If not, we could see a rerun of the inflationary 1970s.

By William A. Galston
