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Whatever Powell's errors, canning him early would be worse.

Don't Fire the Fed Chair, Mr. President

REVIEW & OUTLOOK

It's often hard to know when President Trump is serious about something, or merely creating a distraction. But in case he really meant it this week when he told Republican lawmakers he may fire Federal Reserve Chair Jerome Powell, we have some advice: Don't do it.

Mr. Trump reportedly told some Republicans he's written a letter firing Mr. Powell and may send it. Markets reacted badly, and within minutes the President said he has no plans to dismiss the Fed chief. Some advisers are telling Mr. Trump to keep Mr. Powell until his term as chairman expires next May, but others are gunning for the Fed leader. Mr. Trump might not know himself what he'll do.

Mr. Trump's grievances with Mr. Powell are easy to understand, if not always to agree with. The President expected Mr. Powell to be more deferential when he appointed the chairman in his first term. Instead, Mr. Powell continued the Fed's policy at the time of gradually increasing interest rates and shrinking the central bank's balance sheet. Mr. Trump apparently didn't notice the economy boomed amid moderate inflation as Mr. Powell's monetary normalization coincided with the first-term tax reform.

More recently, Mr. Powell has made policy and political missteps. He admits he was too slow to recognize the accelerating inflation of 2021-22—Mr. Trump is right to call him “too late” for that. He then delivered interest-rate cuts starting in September 2024 despite mixed (at best) data arguing for reductions. Many Republicans perceive this as an attempt to boost Kamala Harris's presidential prospects. We doubt that's what Mr. Powell intended, but appearances matter in politics.

Now Mr. Powell is resisting Mr. Trump's demands for additional rate cuts. That's probably right on the policy merits—see this week's elevated consumer-price inflation report—but it piles pressure on Mr. Trump and big spenders in Congress by pushing up federal debt-service costs. Mr. Powell also keeps pointing out that the Fed needs to monitor the potential inflationary consequences of Mr. Trump's tariffs, which the White House claims won't have any discernible impact on prices.

But love or loathe Mr. Powell, Mr. Trump chose him. Mr. Trump also chose the tariff taxes, and a multitude of no-growth tax and spending handouts in the new budget bill. Now the President has to live with his choices.

There probably isn't an alternative. Mr. Powell has signaled that he and the Fed would sue to block any attempt to remove him prematurely. He'd likely win. Although the Supreme Court recently has expanded a President's control over appointments to quasi-independent agencies, the Justices have made clear they view the Fed as an exception. “The Federal Reserve is a uniquely structured, quasiprivate entity that follows in the distinct historical tradition of the First and Second Banks of the United States,” a majority of Justices wrote in an unsigned May ruling letting the Administration remove members of two agency boards. While the Court's dicta would be open to challenge, the litigation would take months and cause market disruption in the meantime.

Some in the Administration appear to think firing Mr. Powell “for cause” would stand a better chance of surviving legal challenge. This explains the newfound interest over the weekend in a years-long project to refurbish the Fed's headquarters buildings in Washington, and Mr. Powell's supposed mismanagement of cost overruns.

Talk about a silly pretext. Stipulate the project as described may be a waste. Even at a couple billion dollars it represents a rounding error in the federal budget, and it's funded from the Fed's resources anyway. Trying to fire Mr. Powell for this would tie up the Fed, the Administration and markets in messy litigation.

Ironies abound in this brawl. Mr. Powell probably would prefer to cut rates this year, data allowing. But he understands that to defend the Fed's institutional independence he can't be seen acceding too readily to White House pressure. Mr. Trump makes it harder for the Fed to do what he would like every time he pops off about Mr. Powell.

Mr. Trump is also making life difficult for whomever he nominates as Mr. Powell's successor. It's in everyone's interests, including Mr. Trump's, that markets perceive that person as a serious policy-maker and not an Oval Office pushover. Some uncharacteristic restraint from Mr. Trump now makes it easier for his preferred candidate to maneuver later.

The Fed needs monetary-policy changes that some of Mr. Trump's potential nominees are suggesting, but that is a subject for another day. The most urgent task is to vanquish the inflation that undermined Joe Biden's Presidency, paving the way for Mr. Trump's return on a promise to control prices so real wages can climb.

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