



Kevin Hassett EVELYN HOCKSTEIN/ REUTERS

## Conditions Compromise All Fed Hopefuls

### CAPITAL ACCOUNT

By Greg Ip

President Trump is down to four finalists for Federal Reserve chair, and the consensus on Wall Street is that White House adviser Kevin Hassett will get the job.

As for who *should* get the job, many on Wall Street say: not Hassett.

Why the dissonance? The same thing that makes Hassett the favorite is what worries his critics—that someone so close to Trump can't be an independent central banker.

And yet this Fed transition is unique in that the president wants a Fed chair who doesn't fit traditional notions of "independent." He wants someone to support his overall economic agenda, which means lowering interest rates, a lot.

Trump made this clear on social media Tuesday. He lauded the strong third-quarter growth report, then lamented that markets often sell off on good news in anticipation of the Fed raising interest rates to avoid inflation.

Actually, the market didn't go down Tuesday. Nor has the Fed raised interest rates in response to good news. Over the past two years economic growth has been solid, the stock market has romped to one record after another, and the Fed has lowered rates. That's because it sees inflation as less of a concern than unemployment. *Note*

For Trump, that isn't good enough. "I want my new Fed Chairman to lower Interest Rates if the Market is doing well, not destroy the Market for no reason whatsoever. I want to have a Market the likes of which we haven't had in many decades," he wrote in his post. "Anybody that disagrees with me will never be the Fed Chairman!"

Simply put, the next Fed chair will only get the job having precommitted to lowering interest rates. That doesn't fit most definitions of independence. All the finalists have said they favor lower rates: Hassett; former Fed governor Kevin Warsh, in close contention; Chris Waller, a Fed governor; and BlackRock executive Rick Rieder, considered a long shot.

Given that, the case against Hassett might be overstated, and his qualifications understated. His economics credentials—a Ph.D., stints on the staff of the Fed, at mainstream think tanks and publications in respected journals—are solid. He has had some peculiar forecasts, but mostly communicates in language economists understand.



As chairman of the Council of Economic Advisers in Trump's first term, Hassett did show some independence. Many staffers "wanted me out of the Trump White House from the beginning," he recalled in a 2021 memoir. He clashed with trade adviser and tariff supporter Peter Navarro. When Trump turned against current Fed Chair Jerome Powell, his own appointee, for raising rates, Hassett told reporters that Powell's job was safe.

By 2019, "I had had enough," Hassett later wrote. Trump repeatedly challenged his "established opinions" while colleagues and the media attacked him. "It was exhausting."

Out of office, Hassett was critical of President Joe Biden's policies, which he correctly predicted would, along with low interest rates, drive inflation up. On the Fed, though, he was generally balanced, defending Powell for raising rates in 2022.

When Powell slashed rates by a half point a few months before the 2024 election, Hassett at first backed him. It "made a great deal of sense based on the data that they had at the time," he told the Financial Times the next month.

But after becoming director of Trump's National Economic Council this year, Hassett turned more partisan. He called the Fed's half-point cut in 2024 a favor for Kamala Harris, criticized Powell for being slow to cut rates and attacked federal statistics agencies as partisan.

Few would object if pre-2025 Hassett took the helm of the Fed. The worry is that the Hassett of 2025 shows up instead.

Still, 2025 might not be a clean read of Hassett. After all, you can't disagree with Trump in public and remain part of his administration. Treasury Secretary Scott Bessent started out a defender of the Fed and a critic of tariffs, and is now a defender of tariffs and critic of the Fed. No one on Wall Street seems to hold this against him. Note

Warsh's backers think he would be more independent because he isn't close to Trump and has long been hawkish on inflation and monetary policy.

Yet despite not being part of the administration, Warsh has shown little sign of disagreeing with Trump on anything this year. He has been a harsher critic of Powell than Hassett has. He hasn't spoken out against Trump's attempts to take control of monetary policy by threatening to fire Powell or Fed governor Lisa Cook.

Warsh has generally been hawkish since his time as Fed governor, from 2006 to 2011.

But his hawkishness is less evident with Trump in the White House. A few months after Trump began criticizing Powell for raising rates in 2018, Warsh called for an end to rate increases. And this year, though inflation is above the Fed's 2% target, Warsh began echoing Trump's call to slash rates.

Unlike Hassett or Warsh, Waller has arrived at his position in favor of lower rates without attacking Powell, and with economic arguments relatively consistent and coherent. Economists find this reassuring because it means when data no longer supports rate cuts, presumably Waller won't, either.

Hassett says he, too, would be guided by the data and Trump's opinion "would have no weight."

But here's the hard reality: Trump is counting on lower rates to stoke growth, propel markets and reduce the federal deficit. At some point, he may demand something Fed officials don't want to deliver. Could Hassett withstand the sort of pressure Trump would unleash, including threatening to remove him or his colleagues? Would Warsh, Waller or Rieder? We won't know until it happens. Note

In fact, we only know of one central banker who could stand up to Trump, because he already has. It's why Powell isn't under consideration for another term.

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