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The President wants to put monetary policy under his control.

What if Trump Runs the Fed?

REVIEW & OUTLOOK

President Trump has long wanted to control the Federal Reserve, and on Monday night he made his power play by firing Fed Governor Lisa Cook. A central bank with even a semblance of independence may be the casualty.

Mr. Trump has resisted his itch to fire Fed Chair Jerome Powell on the savvy advice that he could rattle markets and trigger an extended court battle. But Ms. Cook said Tuesday she'll challenge her removal, so Mr. Trump will still get his legal fight in what could be a landmark case.

The Cook firing is a calculated putsch. Federal Housing Finance Agency director Bill Pulte teed up the dismissal last week when he posted a criminal referral for Ms. Cook on social media. He said she may have committed mortgage fraud by claiming two different homes as primary residences on mortgage applications in 2021, which may have enabled her to get favorable loan terms.

Intentionally misrepresenting information on a mortgage application is wrong and a federal crime. But we haven't seen the details of Ms. Cook's explanation. There's also a question of selective prosecution, since Mr. Pulte's crackdown on mortgage fraud seems to be aimed only at Mr. Trump's opponents. Ms. Cook deserves more due process than a presidential declaration of guilt on Truth Social.

The criminal referral is a threat to other Fed governors: Cut rates, or else. It is also a pretext to fire Ms. Cook "for cause." The referral, Mr. Trump wrote to Ms. Cook, provides "sufficient reason" to believe she "exhibits the sort of gross negligence in financial transactions that calls into question your competence and trustworthiness as a financial regulator."

Federal law lets a President remove Fed Governors "for cause," but it doesn't clearly define the term. Some statutes that provide removal protections for heads of other agencies define "for cause" as wrongdoing in office. The Federal Trade Commission Act mentions "inefficiency, neglect of duty, or malfeasance in office."

Ms. Cook may argue that the President can't remove her for wrongdoing she committed before becoming a Governor, and in any case hasn't been proven. If the President gets away with firing her, then the "for cause" protections could become toothless.

The Justice Department may argue that "for cause" restrictions on the President's removal power of Governors violate the separation of powers because such officials exercise executive power. This is the argument that the Administration has used to remove members of other so-called independent agencies. *⚡ Note*

A majority of the Supreme Court this spring let the President remove National Labor Relations Board and Merit Systems Protection Board members (*Trump v. Wilcox*). But its unsigned opinion said its decision didn't necessarily implicate removal protections for Fed Governors and other members of the Federal Open Market Committee (FOMC).

"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," the opinion said, though that aside lacks the power of precedent. There are good arguments on both sides of this constitutional question that is likely to reach the High Court.

But if Mr. Trump prevails, he will essentially control the FOMC because he will then be able to fire other board members at will, and the board can fire Fed regional bank presidents on the committee. This will please the

constitutional purists who think the Fed shouldn't be independent of presidential power. Yet this isn't a prudent fight for Mr. Trump to pick—and it isn't in the best interests of the country.

We know from history what happens to central banks that become arms of politicians. See inflation in Turkey under President Recep Tayyip Erdogan and in Argentina for decades. Richard Nixon jawboned then Chair Arthur Burns to keep monetary policy easy, and the result was the 1970s great inflation. Note

Mr. Trump doesn't even need this legal brawl because he is already getting his way on interest rates. Mr. Powell signaled as much Friday in his Jackson Hole speech. The Fed has made many policy mistakes—not least being too late to raise rates when inflation heated up during the pandemic—and this is one reason it is politically vulnerable to Mr. Trump's attack.

But if he wants to change the Fed, Mr. Trump has ample opportunity through appointments to the board, including a successor for Mr. Powell as chair next year. That doesn't seem to be enough for Mr. Trump, who in his afflatus thinks he can run monetary policy. Has he considered what a politically malleable Fed might do when the progressive left takes charge under another President?

Of course he hasn't. Mr. Trump is all about short-term tactics and personal political advantage. Institutional integrity bores him. But if he succeeds in taking over the Fed, he and Republicans will own the results and whatever inflation returns.

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