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A Bigger Threat than Tariff Turmoil: Trump vs. Powell and the Fed

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Perhaps President Trump can't handle the truth.

Given that the Administration is still negotiating tariff deals with major trading partners, except China, Powell and the Fed decided that doing nothing was the best course of action for the moment. At his address to the Economic Club of Chicago, Powell said, "we are well-placed to await more clarity before contemplating any changes to our policy approach."

A day later on Truth Social, President Trump declared that "Powell's termination cannot come fast enough!" For a transactional President, incremental policy making is obviously not a priority.

Jerome Powell explained that Trump's tariffs could simultaneously push inflation higher and slow economic growth. Powell sees evidence that tariffs are "likely to cause at least a temporary increase in inflation" and that economic growth in 2025 appears to be decelerating. This makes life hard for the Fed given its dual mandate to maintain stable prices and maximum employment.

But Powell went further. He said the Fed would not cut rates simply to support falling stock markets. He stressed that price volatility is a rational response to policy uncertainty, not a signal of distress requiring intervention. In other words, when you try to tariff every country all at once, markets react poorly. This meant that interest rates would remain unchanged.

Truth Buh-Bye

Powell's term is up in May 2026, well before the midterm elections. For any other President, that would be sufficient time to identify a new Chair more to his liking. But with capital flight and threats to the dollar's supremacy making headlines, the Trump Administration prefers confontation.

The Federal Reserve has historically operated with a high degree of insulation from political pressure. But this Administration seems to be breaking with precedent and markets reacted accordingly. Following the post, volatility spiked sharply as well as the 30-year Treasury yield to a session high of 4.83%.

Why the Fed Matters

The Federal Reserve serves as the central bank of the United States, managing monetary policy to achieve stable prices and maximum employment, regulating and supervising banks, and acting as a lender of last resort to maintain financial stability.

Its centrality to global capital markets and influence on central banks worldwide stems from its unparalleled scale and technical expertise. It also plays a key role in setting the world's benchmark interest rates and providing dollar liquidity during crises, making its actions pivotal for global economic stability and policy coordination.

The structure of the Federal Reserve is designed to promote stability and continuity. The Federal Reserve Board of Governors serve staggered 14-year terms and the full seven-member Board votes on monetary policy decisions. While the Chair acts as the public face and agenda-setter, power is ultimately collective. The views of Governors often vary, but their practice is to debate policy options to determine what is best for the country at any given point in time.

The Fed Under Attack

At the moment, it is not within the President's authority to dismiss Fed Governors. But the legal architecture that supports the Fed's independence is deliberately under attack. A pending Supreme Court case involving the Trump Administration is expected to challenge the continued validity of Humphrey's Executor v. United States (1935). Humphrey's Executor upheld Congress's ability to shield members of multi-member independent boards, including the Fed, SEC, and FTC, from at-will removal by the President.

The case, Wilcox v. Trump, was catalyzed by the dismissal of Gwynne Wilcox from the National Labor Relations Board. A federal district court ruled that her removal violated statutory protections, referencing Humphrey's Executor to support the decision and the administration has appealed to the Supreme Court. A similar court case has been filed by Rebecca Kelly Slaughter and Alvaro Bedoya both dismissed by President Trump from the Federal Trade Commission in March 2025.

The Trump Administration supports weakening or removing Congressional protections for independent boards. And if successful at the nation's highest court, the President could remove multiple Fed Governors, including Chair Powell, and replace them with politically aligned appointees.

Lest one think this unlikely or impossible, recent rulings, including Seila Law v. CFPB (2020), have already granted the President greater authority to remove single-director agency heads. And President Trump has done so with impunity, firing the Consumer Financial Protection Bureau head Rohit Chopra in February 2025.

Favoring A Unitary Executive

In recent years, the Supreme Court has embraced a “unitary executive theory”, interpreting Article II of the Constitution to give full executive authority—including removal power— to the President. This theory is favored by all six Republican-appointed Supreme Court justices and formed the basis of the Court’s decision in Seila Law.

What More Could Go Wrong? Leading Experts Say Plenty

If the Federal Reserve were to lose its independence and function solely with short-term U.S. political interests in mind, the repercussions for global capital markets, interest rates, the dollar, and equities would be severe and long-lasting—potentially more damaging than even the most aggressive tariff regimes. This assessment is strongly supported by leading economists and market experts, including Mohamed El-Erian, Larry Summers, Thomas Sowell and Phil Gramm, as well as a broad consensus of bond market professionals.

For Global Capital Markets, Capital Flight

The erosion of Fed independence would undermine confidence in U.S. economic leadership, likely prompting global investors to reallocate capital away from U.S. assets. El-Erian warned that such a move would "severely undermine confidence in American economic governance," risking the U.S.'s ability to attract global capital.

The risk premium on U.S. assets would rise, reducing physical investment in the U.S. economy. So would long-term interest rates as investors demand compensation for increased inflation risk and policy uncertainty. This would depress potential GDP and shift production and investment to other countries, exactly the opposite of the Administration’s stated current goals.

Politically motivated rate cuts to address stock market volatility or to spur short-term growth would likely drive inflation higher, forcing eventual sharp rate hikes to restore stability.

J.P. Morgan analysts note that de-dollarization, spurred by perceived instability in U.S. governance, would lead to broad underperformance of U.S. financial assets. This could include a sharp sell-off in U.S. equities. The S&P 500 and other indices could see corrections far steeper and more sustained than those triggered by tariff shocks alone.

How Bad Could It Get?

The Peterson Institute for International Economics estimates (see below) that the combination of tariffs, mass deportations, and loss of Fed independence could leave U.S. GDP between 2.8% and 9.7% below baseline by 2028, with output remaining substantially lower through 2040.

Factor	Loss of Fed Independence	Tariffs Alone
GDP Impact	-2.8% to -9.7% by 2028, lasting to 2040	-0.2% to -0.9% by 2026
Inflation	+2% to +7.4%	+0.7% to +1.3%
Equities	Steep, sustained declines	20%+ correction, but recoverable
USD	Depreciation, loss of reserve status	Weaker, but not a regime change
Long-Term	Enduring, global reallocation of capital	Sectoral, recoverable with policy change

A Mindful Eye

As of today, the Supreme Court has not yet scheduled a hearing date for Wilcox v. Trump. Legal experts anticipate that the Court will hear arguments in the 2025–2026 term; however, no official date has been set.

The loss of Federal Reserve independence would inflict deeper, broader, and longer-lasting damage on the U.S. and global economies than even the most aggressive tariff regimes. While tariffs can trigger recessions and market corrections, the undermining of the Fed’s autonomy would destabilize the entire architecture of global capital markets, drive up inflation and interest rates, weaken the dollar, and erode U.S. economic leadership for a generation or more.

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