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The real reason Trump wants to fire the Fed chair

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President Donald Trump has said the quiet part out loud. His [threats to terminate Federal Reserve Chair Jerome H. Powell](#) if Powell doesn't cut interest [rates](#) are motivated by one simple desire: to make it cheaper for the administration to add about [\\$4 trillion](#) to the federal debt.

Last week, the president sent Powell a handwritten note: "You should lower the rate — by a lot! Hundreds of billions of dollars being lost!"

[In a public event](#) promoting the \$4 trillion Republican budget bill, he spelled out his wishes even more clearly: "We have to work hard with cuts on that. And this guy could do it so easily. ... But every point is ... \$300 billion. So if we got it down to 1 percent we're talking about almost a trillion dollars in saving just with a stroke of a pen. No work, no missing anything. Just like an accounting situation."

There you have it: The Fed should just cut rates to 1 percent (a cut of more than 3 percentage points) to reduce the debt-service costs on the trillions added to the national debt by the GOP mega-law.

That is a remarkably clear statement of what economists call fiscal dominance. It essentially subordinates Federal Reserve inflation control to the administration's desire to hide the cost of its massive debt expansion.

The last time we had Treasury debt management dictating U.S. monetary policy was during the World War II era. This was initially understandable, as government borrowing surged to finance the cost of fighting the war. But it didn't age well as high inflation dominated the postwar years. Inflation wasn't brought back under control until the Federal Reserve secured the [Treasury-Fed Accord in 1951](#) — a critical watershed in giving the Fed the independence to set short-term rates to control inflation.

Of course, lower long-term interest rates would be welcome for many reasons — not least to address the affordability challenge confronting Americans by lowering rates on mortgages, student loans and car loans. But we are more likely to see persistently higher inflation if there is a loss of confidence in the Federal Reserve's ability to keep inflation low.

The Trump administration's fivefold increase in the [average level of tariffs](#) has put the Fed in a bind by raising the risk of a resurgence in inflation close on the heels of the high inflation associated with the coronavirus pandemic. Although most would agree that it is not unreasonable for the committee that sets monetary policy at the Federal Reserve to take a few months to assess pressures from the tariffs on inflation and employment before further cutting rates, the White House has suggested this is a firing offense.

The administration should be careful about forcing the Fed's hand. Markets sharply sold off on April 21 in response to the president's [threats to replace the Fed chair before the end of his term](#): Stocks fell, the dollar weakened and the interest rate on 10-year Treasury securities jumped higher. That is the kind of reaction normally associated with emerging markets such as Argentina — not the United States.

Ultimately, investors will decide how much they need to be compensated to hold a big new supply of long-term Treasury securities. Any sense that the president is putting in place a new Fed chair who will work to keep government borrowing costs low at the expense of fighting inflation will be met with higher rates on long-term Treasury securities as investors demand more compensation to offset losses from higher inflation and a weaker dollar.

That means the cost of servicing the nation's mushrooming debt will go up even more — and affordability will recede further out of reach for most Americans.