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Potomac Perspective

A *Wall Street Journal* article reports on possible actions that a future Trump administration might take vis-à-vis the Federal Reserve (Fed). We explain why we are skeptical that the courts would allow some of the proposals. Any political effort to interfere in central bank activities would undermine the notion of central bank independence and be disruptive to financial markets. The ultimate issue is "for how long." Only time will tell.

The Wall Street Journal reported that allies of former President Donald Trump are drafting proposals that would give Mr. Trump, should he win the 2024 election, more influence over the Fed. Trump representatives said that the campaign has made no official proposal. The *Journal* did not indicate who among Trump's allies were working on the proposal, so it is impossible to say how serious or legitimate the proposal might be. However, it raises the question of what might happen to the Fed if he were to win.

The *Journal* laid out potential approaches that a Trump 2.0 administration could take:

1. Allow the president to sit on the Federal Open Market Committee (FOMC) *ex officio*;
2. Have candidates for the job of Fed chairman (current Chairman Jay Powell's term expires in early 2026) to agree to consult with Mr. Trump on interest rate decisions; and
3. Have Mr. Trump sit on the Fed's board on an acting basis.

A reading of the Federal Reserve Act (FRA), which established the Fed and its Board of Governors, does not provide any clear way for a President to sit on the Fed's board in any manner. The FRA clearly states that the Board is comprised of seven governors which includes a chairman and two vice chairmen. All positions are subject to Senate confirmation. The *Journal's* article did not report on the legal basis Mr. Trump would utilize to directly participate on the Fed's Board. Any attempt by a president to participate on the Fed's Board would certainly be litigated, and the attempt would probably be rejected by the courts. However, *any effort*, even if ultimately unsuccessful, could undermine investor confidence and disrupt financial markets at least temporarily.

The proposal to ask potential Fed chairman to consult with President Trump might alarm some, but we do not see this to be as big of a threat to Fed independence as the other proposals. First, Fed chairmen already consult with the Treasury Secretary, so there is a well-established communications link between an administration and the Fed. Second, policy is agreed to by the Federal Open Market Committee. While a Fed chairman can try to persuade other FOMC members to adopt a certain policy, a chairman cannot force an agreement and has limited (if any) recourse against opposition emanating from the committee. Lastly, while a chairman might agree to consult with the president, there is not a process for a president to force a chairman to act in a certain way. Currently, a president cannot remove a chairman from the leadership post or the Board. Any attempt to remove a Fed chairman would be litigated. While the courts have recently given presidents wide latitude in removing the heads of certain agencies, those instances have involved agencies that are run by a single person rather than a board or commission.

If Mr. Trump wins in 2024 and follows through on the proposals outlined in the *Journal*, we expect volatility in the financial markets and weakness in the U.S. dollar. We are skeptical that the courts would uphold the boldest moves mentioned in the article. The issue would then be how much and how quickly markets would recover if we are correct and the courts block a president's effort to directly participate on the Fed's Board and in FOMC activities.

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