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On Tuesday, President Trump fired both Democratic Commissioners of the Federal Trade Commission (FTC). Aside from the obvious implications for the FTC, the news could signal that similar actions could be taken at the Federal Reserve (Fed). Investors will be occupied with today's Federal Open Market Committee (FOMC) meeting but, longer term, the FTC firings might have policy implications for the central bank and monetary policy.

President Donald Trump fired the two Democratic Commissioners on the FTC's five-member board. According to press reports, the letter he sent to the Commissioners said that their service on the FTC is "inconsistent with my administration's priorities." The Federal Trade Commission Act authorizes the President to fire FTC commissioners "for inefficiency, neglect of duty, or malfeasance in office," in other words, "for cause." As we noted, Mr. Trump fired the Commissioners over policy disagreements, which seems to fall outside of the FTC Act. Recent Supreme Court decisions have given the President wider latitude to fire heads of agencies without cause. Those cases, however, involved agencies run by a single person rather than a board or commission. The firings will be litigated, and the administration will probably argue the recent Supreme Court decisions should be extended to allow the President, as head of the Executive Branch, to fire any official he wants. We think, however, the Court will probably rule that Congress intended boards and commissions to act as checks and balances and is likely to rule against the administration.

The firings could also have implications for the Federal Reserve, which is run by a board similar to the FTC. There are other similarities in the laws that established the two agencies. The Federal Reserve Act authorizes the President to fire Fed Governors "for cause." Although the law does not define that term, it is widely believed the definition is similar to the FTC Act (see above). The administration's justification for firing FTC officials should also extend to the Fed. If the administration therefore thinks it can fire FTC Commissioners over policy disagreements, then logically it should be able to fire Federal Reserve Board Governors. The question is whether it has the political will to fire any of them. We expect that Fed Chairman Jerome Powell will be asked about this at today's press conference although he is likely to deflect such questions.

The Federal Open Market Committee's decision this afternoon will undoubtedly be the predominant issue for the markets, and we doubt many investors will draw any conclusions about monetary policy from the FTC news, but the developments there could signal future administration moves on the Fed. In our view, similar actions taken against Fed Governors could undercut central bank independence and credibility. This might have negative implications for the fixed income market and the dollar.

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