

Politics | The Big Take

Trump's Fed Grab Shakes the Foundation of Global Finance

The president is defying a consensus that powerful finance levers should be kept away from politicians as he seeks to take America's monetary reins.



President Donald Trump is attempting to remodel the Federal Reserve, raising concerns about increasing partisan influence over monetary policy. *Photographer: Andrew Harnik/Getty Images*

By [Catarina Saraiva](#), [Amara Omeokwe](#), [Saleha Mohsin](#), and [Maria Eloisa Capurro](#)

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Donald Trump's fight with the Federal Reserve entered uncharted territory this week. Whoever wins, the damage to an institution at the heart of the US economy – and the world's financial markets – will be hard to undo.

The president's attempt to fire Fed Governor Lisa Cook is unprecedented, and it's now headed into the courts. Trump wants to bend US monetary policy to his will and wrest control over the most powerful levers of global finance. In the process he's defying a near-universal consensus that they're best kept away from politicians' hands.

Decades of experience show that inflation stays lower, and economic growth steadier, when interest rates are set by central bankers who don't have elections to win. Investors trust the Fed to manage the world's biggest economy on those lines. It's a key reason why the dollar, and the \$29 trillion Treasury market, are global benchmarks.



President Trump is attempting to fire Fed Governor Lisa Cook. *Photographer: Anna Rose Layden/Bloomberg*

As Trump throws all of that into question, financial markets seem remarkably unfazed. There's been no sweeping selloff like when the president declared a trade war in April. A couple of under-the-hood gauges – measures of expected inflation in bond markets – flashed mild warning signals. But the dollar and long-term Treasuries are trading higher than at the end of last week.



Big Take

Lisa Cook and the Question of Fed Independence

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For many Fed-watchers, political sway over interest rates points in the direction of a weaker greenback and higher debt costs, and the market response so far smacks of complacency.

“This is a real assault on the Federal Reserve’s independence,” former New York Fed President William Dudley told Bloomberg TV. “I’m sort of surprised that the markets are so relaxed about this.”

Read his column: [I Wasn’t Very Worried About the Fed. Now I Am](#)

But Trump has already smashed one big economics taboo by throwing up the steepest trade barriers in a century. He’s also had success in remolding institutions long held to be above party politics, including the first-term campaign to stack US courts with his allies.

Now he’s following a similar playbook at the central bank. Trump has often said he’d do a better job of setting interest rates than the Fed. One way or another it looks like he intends to try.

Trump will soon get to pick a new Fed chair, with Jerome Powell’s term set to end in May. He already named a close aide to fill one vacancy on the Fed’s seven-member board of governors. The ouster of Cook – on the basis of unproven allegations of mortgage fraud, which she’s challenging in a lawsuit – would open up another. This week the president’s been talking about the board seats in openly partisan terms.

Read More: [Fed’s Cook Signals ‘Clerical Error’ Behind Mortgage Dispute](#)

“We’ll have a majority very shortly,” Trump said in a Tuesday Cabinet meeting. “Once we have a majority, housing is going to swing and it’s going to be great.”

Many economists think the opposite. They’re sounding the alarm about what Trump’s plans will mean for American leadership in the world economy and financial markets, a role the president has vowed to defend.

“Trump is severely undermining the Fed’s credibility as an institution insulated from political pressures,” said Eswar Prasad, an economics professor at Cornell University. There’ll be “adverse ramifications for the effective

conduct of monetary policy, worldwide trust in US financial markets, and the dollar's global dominance," he said.



Central bankers around the world gave Powell a standing ovation at Jackson Hole this month. *Photographer: David Paul Morris/Bloomberg*

If financial markets aren't in the disaster camp, one reason is that the on-and-off tariff rollout earlier this year showed Trump sometimes pulls back when pressured. There's also the possibility that Cook will win her legal fight, and the US central bank will hold onto its independence.

"If Trump's strong-arm tactics against Fed officials continue, the US will eventually pay for this with a weaker dollar and higher long-term borrowing costs," said Atakan Bakiskan, US economist at Berenberg. If a market backlash does take shape, he said, "this could cause Trump to back off. We learned in the past that Trump responds to markets, and the bond market may be his weak spot, given the growing US debt and fiscal deficits."

As for US stocks, they've extended gains this week. "The bar on 'something bad' happening to break the market's confidence is quite high," said Brian Nick, head of portfolio strategy at Newedge Wealth. "An erosion of Fed

independence over time is being priced in, but equity markets are not bothered.”

Both American history and the state of play in the US economy right now offer reasons to worry.

Back in the 1970s, presidential pressure on the Fed to lower interest rates meant it repeatedly failed to rein in inflation and eventually had to hike rates to punishingly high levels, triggering a painful recession. For a long time after that, with central bank independence well entrenched, prices were stable.

But they soared again after the pandemic, and the Powell Fed was late to counter that surge. Ever since, officials have been toiling to bring inflation all the way down to 2%. They’ve been reluctant to lower rates this year because they see Trump’s tariffs as a threat to that target.

Powell signaled at Jackson Hole that a cut could come as soon as next month, but didn’t provide many clues about what may follow, calling the situation “challenging.” With the economy so delicately balanced, political pressure could backfire.

Trump’s move against Cook is a “significant escalation,” and may lead to attacks on other Fed leaders including the heads of its regional branches, who also get a say on interest rates, according to Jon Faust, a former special adviser to Powell. That could “clear the way to partisan control of monetary policy,” said Faust. “The only way that story ends is with inflation and profligate fiscal policy.”

The White House says the move against Cook will enhance the Fed’s credibility, not diminish it.

The president exercised his lawful authority to remove a governor on the Fed board “for cause,” said White House spokesman Kush Desai. “The President determined there was cause to remove a governor who was credibly accused of lying in financial documents from a highly sensitive position overseeing financial institutions. The removal of a governor for cause improves the Federal Reserve board’s accountability and credibility for both the markets and American people.”

Trump and his allies aren't the only ones who've made a case in recent years for a Fed overhaul.

Especially since the 2008 financial crisis there's been a groundswell of Fed criticism, from the political left as well as the right. Central bankers have variously been blamed for stoking inequality with asset purchases and missing the problems building up at Silicon Valley Bank before its collapse, as well as post-Covid inflation. And it's been bashed for overreaching into areas like climate change that are outside its traditional remit.

Seen from the outside – and especially from the emerging-market world, rich in case studies of central-bank takeovers that ended badly – the story might look a bit different.



Henrique Meirelles, Brazil's former finance minister. *Photographer: Maira Erlich/Bloomberg*

“It’s rather common for a politician to believe that the economy will grow faster, along with his popularity, once there’s an artificial rate cut,” said Henrique Meirelles, governor of Brazil’s central bank in the early 2000s. “Which is wrong, obviously.”

Meirelles should know: he came close to leaving the bank as political pressure mounted when he was hiking rates to nearly 14%. Eventually President Luiz Inacio Lula da Silva kept him in the post. But history has a way of repeating itself: a year ago Lula was in the middle of another campaign against a different rate-hiking central bank chief who he labeled a “political and ideological adversary.”

There are plenty more examples, from Turkey to Colombia. Sometimes the motive has been to keep the lid on debt costs as governments run up big budget shortfalls. That classic EM story is now playing out in America too as Trump touts the “hundreds of billions” in interest savings that Fed cuts can deliver.

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What's more, Trump's move against the Fed is just one front on which he's seeking to expand presidential powers and entrench GOP allies in what used to be seen as an above-party bureaucracy.

Trump's first term was defined by a successful push to reshape the judiciary. The Senate confirmed hundreds of Trump's lower-court nominees, and cemented a conservative supermajority on the US Supreme Court, which may well get to make the final call on whether Cook stays at the Fed or not.

The court signaled earlier this year that it may be willing to show the Fed special deference, saying its officials could only be fired for cause, but how it would apply that in the Cook case is unclear.

Another key actor with sway over the central bank's future is Congress, which oversees the Fed and is currently in recess. Republican lawmakers have mostly been silent this week, though a few senators spoke out in support of Fed independence earlier this year.

“The independence of the Fed is a cornerstone of sound economic governance,” said Dan Schneider, a GOP spokesman on the House Financial Services Committee. “The allegations against Governor Cook are serious and the appearance of something unethical erodes trust in the Federal Reserve.”

Congress has a constitutional responsibility to provide oversight, and the Committee looks forward to examining the allegations.”

It may take time for the legal drama surrounding Cook to get resolved. Meanwhile Trump is already poised to put his stamp on the Fed board.

The administration says it's looking at 11 potential candidates to succeed Powell, and Treasury Secretary Scott Bessent plans to start interviews next week. It doesn't look like any of them is losing interest in the job. In the wake of Trump's move to fire Cook, no candidate has informed the administration that they want to be removed from consideration, according to one person familiar with the matter. The plan is for Bessent to send a shortlist of three or four names to the president as soon as October, before an announcement later this fall, the person said.

Trump says he'll pick a chair who will cut rates. He's also tapped Stephen Miran, a loyalist and current head of the White House Council of Economic Advisers, to fill a short-term vacancy through January. Confirmation hearings are due next week, and if they can be fast-tracked then Miran could be in place by the next Fed rates meeting on Sept. 16-17.



Stephen Miran *Photographer: Andrew Harnik/Getty Images*

At the last one, when the Fed held policy steady, the two other Trump appointees on the board - Vice Chair for Supervision Michelle Bowman and Governor Christopher Waller - cast dissenting votes in favor of rate cuts.

In the face of Trump's onslaught, Powell and other policymakers have maintained a diplomatic approach. That's in the nature of the institution, according to [Gbenga Ajilore](#), chief economist at the Center on Budget and Policy Priorities.

"This is not a normal moment," Ajilore said. "When you work at the Fed, you are purposely politically independent. And so there's almost like a muscle that you have to have to be an advocate that the Fed, rightfully so, doesn't have."

There are avenues that Trump could use to escalate even further against the Fed. A majority on the seven-member board wouldn't in itself guarantee rate cuts, since those are voted on by the Federal Open Market Committee - which also includes five of the 12 reserve bank presidents. The administration is weighing options to increase control over those regional Fed bodies too.

Read More: [Trump Team Weighs Options to Extend Influence to Fed Banks](#)

US central bankers always stress that they set monetary policy solely on the basis of the economic outlook. There's already a risk that Trump's moves to shape the Fed will undermine that approach - especially after the move against Cook, according to Loretta Mester, who was president of the Cleveland Fed from 2014 to 2024.

"If you have even the specter that the president can remove anybody at any time," it can erode the Fed's independence, Mester said. "People will just assume that policy is being set with these other considerations. And that's a problem. That's a big problem."

— *With assistance from Dave Merrill, Natalia Kniazhevich, Jonnelle Marte, and Matthew Boesler*

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