What’s behind the Trump-Powell clash

Nick Beams
17 July 2025

The continuous push by US president Trump against the chairman of the US Federal Reserve, Jerome Powell, over his refusal to lower interest rates involves more than another attempt by Trump to concentrate all the levers of state power in his hands.

That is certainly a factor, but there are also powerful economic forces at work. They are bound up with the escalation of US government debt—now at $36 trillion and rising—and the mounting interest bill, which is absorbing an increasingly greater share of government spending.

The issue of government debt and its financing is also the centre of the opposition to Trump’s attack on Powell and his desire to put in place a Fed chief who will carry out his dictates from powerful sections of the financial establishment. Their concern is that if Fed independence is scrapped the international money supply to the US will be in jeopardy.

Trump’s demand for lower rates—possibly down to as low as 1 percent from the present level of 4.5 percent—would immediately benefit highly leveraged sectors of the financial oligarchy who have used debt to finance their speculative operations in financial markets.

That consideration is a factor but by no means the only one. The passage of his so-called “big, beautiful budget,” which makes permanent major tax cuts for the corporations and the ultra-wealthy, is being financed by the growth of government debt, which independent analysis estimates could be as much as $3.3 trillion.

The interest bill on government debt is already around $1 trillion and will rise even higher as long as interest rates remain at a relatively elevated level. Trump has said that Powell’s refusal to cut rates has meant the government is paying too high a price for its debt.

The US government debt has been steadily rising for the past decade and a half, particularly since the global financial crisis of 2008. But the interest bill was not a problem for much of that time because the Fed kept rates at ultra-low levels. That changed after the hikes starting in 2022 in response to the inflationary impact of the COVID pandemic.

The Fed cut its rate by a full percentage point from September to December last year, but Trump and his supporters deem this to be totally inadequate. In the short-term a significant rate cut would certainly add to their stock portfolios and boost the position of speculators in the financial and real estate markets.

There are also longer-term factors at work because of slower US growth. While it is still higher than many other countries at around 2 percent, or less on some forecasts, low US growth points to debt financing problems when the interest rate is around 4.5 percent.

Despite appointing him in 2017, Trump has been attacking Powell for years—during his first term, his period out of office, and most vociferously in the half-year of his second term.

He has labelled him, among other things, as a “numbskull” a “moron,” and “stupid” and has threatened to remove him before his term expires in May 2026. Each time he has pulled back from the sacking threat but keeps returning to it like a dog with a bone.

His latest outburst this week revealed that the idea of sacking Powell is still very much on his mind, and he advanced the possibility of developing a mechanism by which it might be carried out.

At a meeting in the White House with Republican lawmakers whose support he was seeking for crypto legislation, Trump raised whether he should fire Powell. They said they agreed with the idea.

One of them, Anna Paulina Luna, a congresswoman from Florida left the meeting to make a post on X on Tuesday evening that she was “hearing” that Powell would be fired and this was “imminent” and this came from “a very serious source.”

After this caused some turmoil in financial markets Trump was forced to declare from the Oval Office that “we’re not planning on doing anything” while acknowledging that he had discussed “the concept of firing him.”

“I don’t rule out anything, but I think it’s highly unlikely. Unless he has to leave for fraud,” he told reporters.

He suggested that he could remove Powell for cause—the only legal option that appears to be available to him—because of major cost overruns on the renovations to the Fed building now estimated to be at least $2.5 billion.

Asked if the overrun on the renovation costs amounted to a sackable offence, Trump replied: “I think it sort of is.”

While the sacking of Powell has considerable support among Trump’s acolytes in the Republican party, some of whom have advanced the issue of the Fed building as a possible basis for his removal, Trump’s campaign has run into opposition from leading figures in the financial establishment.

They are concerned that the removal of Powell as Fed chair would destabilise the dollar, financial markets, and undermine the financial dominance of the US. Their concerns go beyond the issue of Powell, even if he stays on, because Trump has made clear his successor must agree to rate cuts. That being the case, what price Fed independence?

The response of the bankers was kicked off by JP Morgan chief executive Jamie Dimon in a conference call with bank analysts on Tuesday.

Dimon said that “the independence of the Fed is absolutely critical—and not just for the current Fed chair… but for the next Fed chair.”

“Playing around with the Fed can often have adverse consequences, the absolute opposite of what you might be hoping for.”

Dimon did not elaborate further but other finance chiefs, who weighed in afterwards, did. Their concerns were focused on the global status of the US and its financial system.

One of the reasons the US has been able to run up debt, seemingly without end, is because money flows into it from the rest of the world.

But if confidence in Fed independence is shaken and the financial system becomes subject to the same kind of decisions as on tariffs, that inflow may slow significantly leading to the “adverse consequences” to which Dimon referred.

In an interview with the business channel CNBC Goldman Sachs chief executive David Solomon said: “I think central bank independence, not just here in the United States but around the world, has served us incredibly well.”

It was something “we should fight to preserve.”

Jane Fraser, of Citigroup said in a statement that “the independence of the Federal Reserve drives its credibility. It is critical to the effectiveness of our capital markets and US competitiveness.”

In comments to CNBC, Bank of America chief Brian Moynihan said the size of the US economy, its massive debt and its role in global trade made Fed stability crucial for the whole world, not just the US.

The four banks involved have assets under their control amounting to $12 trillion.

The response from analysts at hedge funds and other financial firms was on the same lines.

The remarks of Thomas Thornton, the founder of the hedge fund Telemetry, to Bloomberg was typical of many. If Fed independence were “broken” this would inject risk into the bond market as he pointed to wider concerns.

“With this potential of a Fed chair being ousted combined with the risk of high deficits and out of control US debt levels, the risk of the long-end rates [in the bond market] of spiking is increasing.”

Summing up the situation a *Wall Street Journal* article noted: “It is almost universally believed on Wall Street that tampering with Fed independence could have outsize consequences for global capital flows because it could weaken US Treasurys and the dollar, which underpin financial markets worldwide.”

Both the Trump animus towards Powell and the response to it, indicate that despite the stock market continuing to trade at record highs there are enormous tensions building up in the financial system.