

Trump attack on Fed chief sparks deep concern in financial institutions

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14 January 2026

The decision by the Trump administration to launch a criminal investigation into Fed chair Jerome Powell through the Justice Department, concerning statements he made to Congress on the cost of renovations to the Fed building, has vast implications for the stability of the US and global financial system.

In response to the turmoil this action could set off, former central bankers and leading former economic officials in the US have backed Powell, followed by a statement of “full solidarity” issued by central bank governors from 11 major institutions around the world.

Meanwhile the pretext for the attack—that Powell misled or even lied to Congress—appears to be unravelling with the news that the Fed chief sent a letter to Senators about the renovation project after he gave testimony last July.

The criminal investigation into Powell and the possible bringing of criminal charges after a grand jury hearing is not a personal conflict.

It is the culmination of a years-long campaign against Powell by Trump, which has escalated in the first term of his second presidency, over the demand that the Fed cut interest rates to as low as 1 percent.

Trump is acting on behalf of the most rapacious and outright criminal sections of the financial oligarchy he represents which is demanding lower rates in order to finance the highly speculative operations in crypto, real estate and other areas of the market in which it is embedded.

After maintaining a restrained silence in the face of Trump’s denunciations of him as a “numbskull” and a “moron,” amid continual threats to have him removed, Powell’s decision to go on the offensive and denounce the attacks is significant.

It reflects an assessment by key sections of the financial establishment that Trump’s attacks on the Fed’s independence and his efforts to bring it under his direct control, rather than making America great again, strike at the very foundations of the US financial system and threaten its global financial dominance.

Powell said the unprecedented action against him had to be

seen in the “broader context of the administration’s threats and ongoing pressure.”

“The threat of criminal charges is a consequence of the Federal Reserve setting interest rates based on our best assessment of what will serve the public, rather than following the preferences of the president.”

The Fed is not a neutral instrument, and Powell is not speaking for the “public.” He is acting on behalf of the more traditional sections of Wall Street which fear the lower interest rates demanded by Trump will spark inflation and set off a wages movement by the working class.

The joint statement issued by four living former Fed chairs and other former leading officials in both Republican and Democratic administrations supporting Powell pointed to the underlying concerns that Trump’s actions threaten the dominant position of the US within the global financial system.

It denounced the criminal inquiry into Powell as “an unprecedented attempt to use prosecutorial attacks” to undermine the independence of the Fed.

“This is how monetary policy is made in emerging markets with weak institutions, with highly negative consequences for inflation and the function of their economies more broadly. It has no place in the United States whose greatest strength is the rule of law, which is the foundation of our economic success.”

While not making the issue explicit, this statement points to the underlying fear of key sections of the US financial establishment that Trump’s actions threaten to undermine the dominant global financial position of the US.

Ever since August 1971, when president Nixon removed the gold backing from the US dollar it has functioned as a fiat currency. No longer backed by gold, the ultimate embodiment of value, its role as the pre-eminent global currency has rested on confidence in the stability of the US state and financial system.

The Nixon decision was the initial expression of the long-term decline of the economic dominance of US imperialism. But enough of its financial and economic power remained

for it to construct a new financial order which continued to be based on the dollar.

In fact, the new system conferred certain advantages on the US. Freed from the constraints imposed by the maintenance of the gold backing, it enabled the advance of financialisation—the ever-increasing turn to speculation and financial market operations as the chief source of profit. At the same time, it enabled the US government—bailing out corporations and financing its wars—to run up ever higher debts because of the dollar’s role as the global currency.

But this system is now reaching its objective limits. US public debt has reached \$38 trillion and is continuing to rise at what every major financial institution has said is an “unsustainable” rate.

The growing fear is that with the development of another financial crisis, potentially larger than that of 2008 and March 2020, the institutions of the capitalist state—the government and the central bank—will be unable to carry out the bailout and rescue operations they made in the past.

Confidence in the stability of the US has already been severely shaken with the attack by the Trump administration on the post-war trading system with the imposition of massive tariffs on so-called “liberation day” April 2, 2025.

The immediate impact of this decision was to send the dollar plunging and sparked a sell-off of US Treasury bonds along with other financial assets.

While markets stabilised somewhat because of a certain pullback by Trump and the continued growth of the US economy, largely as a result of massive AI investments, the essential content of the tariff war has now emerged in another form as revealed in the attack on Venezuela.

The violent militarist grab for resources—a volcanic eruption of imperialism—is a new stage in the desperate effort to maintain US economic and geopolitical dominance.

The fear of the faction of the ruling class opposing Trump, and powerful sections of the financial establishment, is that the ending of Fed independence—one of the pillars of the fiat currency system—will lead to a collapse of confidence in the dollar and an uncontrollable financial crisis.

That lack of confidence is already expressed in the rising price of gold. It rose by 65 percent last year and reached over \$4600 per ounce in response to the announcement of the criminal investigation into Powell before falling back slightly.

The actions of the Trump regime have set off alarm bells internationally. In an editorial the Financial Times warned: “Fed independence is not just a vital pillar of US economic governance but an anchor of the entire global financial system.”

It went on to claim that this action was an “oddity” because it seemed so unnecessary as Powell was to retire in

May. But this assertion ignored the wider context.

The action was not just directed at Powell but is part of total subordination of the Fed to the president despite whoever becomes the next chair. Just as significant as the attack on Powell is the attempt to remove Lisa Cook as a Fed governor, an action which will come before the Supreme Court later this month. If successful it will mean that the majority of Fed governors will be Trump appointees.

Reflecting the growing fear of what Trump’s actions might bring, a comment in the Australian Financial Review pointed to the “nightmare of a politicised Fed.” It said the decision was “frightful,” threatening to undo 70 years of Fed independence on monetary policy, a “key pillar of the US’s sustained economic and financial strength.”

That this was happening just before Powell was due to hand over to a new chair was “frightening” because it made clear this is “an administration that will stop at nothing to try to get what it wants.”

The development of AI looked promising, it claimed, but “it is only as good as the institutional bedrocks supporting it and the broader economy and financial system.”

“It may only take another crack or two in the financial system or the US economy for investors to start questioning all the other wildcard things that have happened since Trump took reins.”

In other words, there could be a stampede of money out of the US, precipitating a financial crisis of unprecedented dimensions.

Such a crisis, which would engulf the world, will be met with the unleashing of ever greater social devastation and violence against the working class. The only defence against this onslaught, already underway, is an independent industrial and political struggle, advanced through the building of rank-and-file committees, in the fight for a socialist program.



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