



By: **Kenneth Rogoff**

# The Apprentice: Fed Chair Edition



US President Donald Trump is **reportedly** preparing to name the next chair of the Federal Reserve earlier than expected in an effort to undermine incumbent Jerome Powell, who has frustrated him by refusing to cut interest rates.

Trump has made no secret of his disdain for Powell, recently **describing** him as “an average mentally person” with a “low IQ for what he does.”

But Powell’s term does not end until May 2026, and the Supreme Court has **ruled** that the Fed is the one independent agency whose chair the president cannot fire.

Typically, a US president announces a new Fed chair a few months before the incumbent’s term ends – just enough time for Senate confirmation hearings and a smooth transition.

Naming a successor ten months early would be highly unusual. So why do it?

Trump is apparently planning for his Fed chair-in-waiting to establish a “shadow” Federal Open Market Committee that would publicly pressure the real FOMC to lower interest rates more aggressively.

The idea of a shadow FOMC dates back to economists Karl Brunner and Allan Meltzer, who **introduced** it in 1973 during the early years of the Great Inflation, when Fed policy was widely criticized for being too expansionary.

Brunner and Meltzer were influential academics, but they had no direct influence over policy decisions.

By contrast, Trump’s plan – first **floated** by Treasury Secretary Scott Bessent during the 2024 campaign – would place his nominee at the center of a very public effort to undermine Powell’s authority.

## The real goal

But analysts who see this as a serious attempt

to bully Powell may be missing the point.

Monetary policymakers are unlikely to pay more attention to a Trump-picked shadow chair than they do to Trump himself.

If anything, the move could prompt the Fed to assert its independence by doubling down on current policies.

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The real goal appears to be weakening the next chair before they even begin their term by forcing them into a kind of public apprenticeship, giving Trump a preview of their approach to monetary policy and testing their ideological loyalty to his agenda.

Moreover, the shadow Fed chair will know that any sign of independent thinking could cause Trump to reprise his famous reality-show catchphrase: “You’re fired!”

The Supreme Court may have ruled that the president cannot fire the sitting Fed chair, but nothing prevents him from withdrawing a nomination. That threat alone could pressure the nominee to toe the line.

After months of publicly demonstrating fealty to Trump, they could find it extremely difficult to push back against his demands.

## The leading contenders to replace Powell

The leading contenders to replace Powell **reportedly** include former Fed Governor Kevin Warsh, who was a finalist when Trump appointed Powell in 2017, National Economic Council Director Kevin Hassett, and Bessent.

Current Fed Governor Christopher Waller, a former academic known for his **work** on central-bank independence, is also in the mix. Appointed by Trump in 2020, Waller is

generally viewed favorably by Republicans.

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This shortlist includes capable and experienced contenders who could rise to the challenge of sustaining economic growth while curbing inflation.

But Fed chairs are not monetary dictators; they must win over the rest of the FOMC or risk being outvoted and heavily scrutinized.

Even a strong and independent nominee could be weakened by a prolonged stint as shadow chair. Seen as Trump's lackey, their credibility would be severely damaged, limiting their influence over both the FOMC and financial markets.

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Let's give credit where credit is due: Trump has devised a fiendishly clever way to rein in the next Fed chair, whom he cannot control – at least in theory.

But in doing so, Trump risks shooting both himself and the US economy in the foot.

Contrary to popular belief, the Fed does not control all interest rates. It sets only the very short-term policy rate, while longer-term interest rates are largely determined by markets.

Those rates reflect expectations about future Fed decisions, and those expectations are based on the assumption that policymakers will work to keep inflation under control.



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Given that these rates affect everything from mortgages to car loans, ordinary Americans would feel significant pain.

The purpose of an independent central bank focused on price stability – an idea I first **proposed** 40 years ago – is to maintain low long-term interest rates.

That may help explain why reports that Trump is planning to announce the next Fed chair ahead of time caused the dollar to **fall** sharply.

Still, The Apprentice: Fed Chair Edition is sure to make for great television, which may be what Trump cares about most.

Kenneth Rogoff, a former chief economist of the International Monetary Fund, is Professor of Economics and Public Policy at Harvard University and the recipient of the 2011 Deutsche Bank Prize in Financial Economics.