



The Daily Dish

Stupid Trump Tricks

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The merits of the Department of Justice (DOJ) subpoena issued to Federal Reserve Chairman Jerome Powell are beyond Eakinomics' expertise but if spending too much money is a criminal act, official DC should be very, Very, VERY afraid. Putting that minor issue aside, the DOJ assault is a boneheaded, stupid, counterproductive move by the administration in its ongoing political harassment of the Fed.

Why?

First, the DOJ move is an(other) undisguised assault on Fed independence. If bond market vigilantes become convinced that there is a high probability it will succeed, market participants will build large risk premia into longer-term rates. Since the administration has no plan to get the fiscal house in order, it is reliant on borrowing and the inflow of foreign capital. Loss of confidence in the Fed will deliver an interest-rate shock that not even a lackey named Kevin can offset.

Second, it could stir the Senate to opposition. If the administration loses even four Republican votes, it will be unable to confirm Powell's successor (or any other appointment, for that matter). The bond market is the ultimate firewall against Fed assaults, but the Senate is a close second.

Finally, it might bestir even the gentlemanly Jerome Powell to retain his Board seat after stepping down as chairman. If he did choose to not observe this tradition, he could be joined by the bloc of Cook, Jefferson, and Barr to form a majority of the Board that could veto any Federal Reserve actions. If he also chose to run for chairman of the Federal Open Market Committee (FOMC, the policymaking arm of the Fed), that bloc would likely be joined by regional Fed bank presidents to elect him as chair of the FOMC (as opposed to chair of the Board of Governors). Voila! Mr. Powell would be running monetary policy and President Trump's appointee for Board chair could occupy himself supervising the new building. The

arc of historical irony bends toward Trump's choice.

This is a bad move and a reminder to keep the ratio of testosterone to IQ points in a safe range.