

The battle for the Fed is on

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Trump is trying to control all aspects of government in the US. The Federal Reserve is likely to be the last outpost of resistance. Who will win the battle to control it?

<https://www.youtube.com/watch?v=iLrY9BFZpys?si=KC-fl5qJ7J17WSOI>

This is the audio version:

https://www.podbean.com/player-v2/?i=wraz9-182c0f2-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=f6f6f6&font-color=&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

There is a battle looming in the USA. It's going to be between Donald Trump as President and Jay Powell as chair of the US Federal Reserve.

Now, let's be clear what the US Federal Reserve is. It is the US Central Bank. It's the federal agency that is tasked with the job of creating all those dollars that are used by the people of the USA, its banking system and much of the banking system of the rest of the world.

He is a fairly powerful man, and he is given the job of running the Fed to achieve two goals.

One is low inflation, where the target is 2%.

The other, which is unusual because most central banks do not have this obligation, is to take into consideration the rate of employment in the USA and to keep that as high as possible whilst also delivering that low inflation rate.

Now, in the case of the US Federal Reserve, because it has this broader mandate, I can see that the job given to that agency is one that is overall beneficial to the people of the country. Because that agency is required to balance the interests of finance and the interests of the people of the country, it is in direct contrast to the situation in countries like the UK, where only inflation matters. So, Jay Powell may be doing an essential job for the people of the States, and he will be if he stands up to one particular thing, which is Donald Trump's desire to take over control of every single US federal agency, of which, of course, the Federal Reserve is one.

Jay Powell is making it clear he has no intention of giving way to Trump. He is claiming the continued right to control US monetary policy for these dual purposes of promoting employment and keeping inflation low. And he's going to ignore what Trump wants. And Trump wants low interest rates, come what may.

Remember, Trump is at core, a businessman or so he believes, because in reality, he's a failed businessman. But let's not nitpick. That's what he thinks he is. And as a consequence, and as a man who has spent his life living on borrowed money, he wants low interest rates. And Jay Powell is not necessarily going to deliver what Trump wants.

Jay Powell can see all the threats to the US economy.

He can see the risk that he can see the risk that tariffs are going to create. They will induce inflation in the USA. He is tasked with keeping it low. He will want, because he is a conventional economist, to keep interest rates high.

As a consequence, he can see the threat to growth in the USA and the fact that employment might be threatened because things are likely to slow down as the US government ceases to spend in anything like the amount it has so he will want to reduce interest rates.

He will recognise the conflicts within this role, but the one thing that he will not appreciate is somebody sitting in the White House who is trying to dictate policy to him when he knows that what he's trying to achieve is difficult enough already.

And so I believe what is going to be set up is a humdinger of a fight between these two really very powerful and quite opinionated people.

Trump will at some point have to meet his nemesis. The person who says, "No, I will not give way". He's not done so in the armed forces. He's sacked the chief generals there.

He's sacked many other people in positions of considerable authority in the USA.

But Jay Powell might be the person who stands out. He might say, "No, I am not giving away. You will have to fight me to take control of the Fed", because I think he believes in what he's doing more than he does in his own personal prestige or position.

He wants that position to deliver against the mandate. He doesn't care about a president who's trying to undermine that mandate by doing things that he thinks will be harmful.

Now, this is why the fight might be so significant because it's not just about personalities. It's also going to be about policy, and it's going to be about protection for the people of the USA against the consequences of Trump's policies, and that's deeply significant.

Because whilst Trump wants to become the total authoritarian, dictatorial ruler of the states, Powell is standing in his path and nobody knows how this will turn out.

One, or either of them, of course, might just drop dead on us, which would be unfortunate. But they're both already in their seventies. They're older men.

One or either of them might give way.

It could be Powell, he could be overturned by some form of legislation or simply by brute force. because I don't rule out Trump using that. But the point is, the signal that that will send will be the point when the world recognises that Trump is either trying to or has succeeded in finally taking control of all the institutions of power in the States, putting them under his direction.

Therefore, this has a significance almost beyond that over the economy. This is where the frontline is between autocracy in the USA and some remaining element of democratic control.

I do not know how this fight will turn out. I'm not a gambling man. I never will be, but I'm going to watch with interest because the future of central bank independence - something I'm usually not worried about - in the USA, has become the frontline for its democracy. And to me that matters.