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THE WALL STREET JOURNAL.

The Wall Street Journal 03.07.2025

The Corporate Winners and Losers in Trump's Big Tax Bill

Oil drillers win access to public lands and manufacturers get tax breaks, while elite universities face new endowment taxes and solar projects lose tax credits

The final version of President Trump's hallmark tax-and-spend legislation delivers significant tax advantages to some industries while rescinding them for others.

While Medicaid and state-and-local-tax deductions, known as SALT, have received a lot of attention, the tax law will impact a broad array of sectors.

WINNERS

Fossil-fuel companies

Oil-and-gas lobbyists have called the legislation a home run. It mandates new lease sales on public land and in federal waters in Alaska and the Gulf of Mexico, as well as in Western states. Lower royalty rates are reinstated, and the bill augments subsidies for projects that capture carbon and use it to recover more oil. Oil-and-gas producers will also be able to deduct certain drilling and development costs, a carve-out from the corporate alternative minimum tax.—*Benoît Morenne*

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Silicon Valley investors

The Qualified Small Business Stock tax exclusion is being expanded to allow investors in startups to sell even more of their holdings early without paying capital-gains taxes. The new bill raises the per-issuer cap on eligible gains to $15 million, from $10 million, and lets investors reap the benefits while holding shares for shorter periods of time.—*Isabella Simonetti*

Chipmakers

Tax credits for semiconductor manufacturers that break ground on new plants in the U.S. will increase to 35% from 25%, part of the federal government's effort to boost domestic production of the technology driving the artificial-intelligence revolution. Projects must start before the end of 2026. Beneficiaries could include companies like Intel and Micron if they expand their manufacturing footprints in the U.S.—*Melissa Korn*

Defense contractors

The Pentagon will budget about $150 billion over five years on big-ticket projects such as ships, munitions production and missile-defense systems, including a roughly $25 billion down payment on the planned Golden Dome antimissile shield. That could be a boon for companies like Lockheed Martin and Palantir Technologies.—Drew FitzGerald

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Airlines

The legislation includes $12.5 billion to overhaul the nation's air-traffic-control system. Airline chief executives have rallied around the plan, saying that antiquated facilities and equipment contribute to delays. Industry groups have praised the legislation as a down payment but said that fully modernizing the system requires billions more in funding.—*Alison Sider*

School choice

The legislation provides a big win for private schools and conservative school-choice activists through a new and generous tax credit. Taxpayers may now redirect up to $1,700 of their tax bill to organizations that issue stipends to help students attend private schools. States would have to opt into the program, though, which could set up fights in places where private-school vouchers have been rejected by voters or legislators.—*Matt Barnum*

Sports-team owners

Sports-team owners averted a potential financial hit after the Senate cut from its version of the spending bill a provision addressing deductions for intangible assets. The proposal would have limited their ability to deduct costs like player salaries and media-rights deals. Opponents of the proposal said it also would have depressed franchise sale valuations.—*Isabella Simonetti*

Private equity

Trump had asked Congress to raise taxes on carried interest income, but that isn't in the legislation. Carried interest is what private-equity managers receive when certain investments are sold for a profit. Under current rules, carried interest on investments held at least three years can qualify for lower tax rates applied to long-term capital-gains, well below those applied to ordinary income. Critics of the current system say carried interest is more like compensation for labor than capital gains from an initial investment.—*Miriam Gottfried and Richard Rubin*

Manufacturers

Companies will receive an array of tax breaks meant to spur domestic manufacturing. They can fully expense the cost of building a factory as long as construction starts after Jan. 19, 2025—the day before Trump's inauguration—and goes into service before 2031. The bill offers more permanent and faster writeoffs for the cost of equipment and research and development.—*John Keilman*

Real-Estate developers

The bill preserves and expands existing tax breaks for commercial real-estate investors and developers. Among them is "bonus depreciation," a feature of the 2017 tax cuts, which will allow property firms to deduct 100% of many property-improvement expenses.

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The bill also makes investments in tax-deferred "Opportunity Zones" for real-estate developments a permanent part of the tax code and maintains a 2017 tax deduction for pass-through entities, such as LLCs, that are widely used to own and manage commercial real estate. Affordable housing construction should also get a boost. The bill provides a 12% expansion of the Low-Income Housing Tax Credit, a program that has funded the development of about 50,000 new housing units a year.—*Will Parker*

Private-student lenders

Private-student lenders like SoFi stand to benefit from lowered federal student-loan caps. New caps will lower federal borrowing to $100,000 for graduate students and $200,000 for professional programs, such as medical school, down from caps of $138,500 for most grad students and $224,000 for certain health programs. Lower caps could push more students toward private lenders to fill the gap.—*Dalvin Brown*

Retailers

Retailers will be among the biggest beneficiaries from the bill's preserving of the current 21% corporate income-tax rate. Before a 2017 bill lowered the rate from 35%, retailers paid among the highest effective tax rates. Companies like Macy's and Kohl's operate mostly in the U.S. and spend little on manufacturing and R&D, so they claim few deductions on these activities. The preservation of the 2017 tax-rate cut offers a spot of good news for an industry facing increased costs from the Trump administration's trade war.—*Haley Zimmerman*

LOSERS

AI and tech companies

A provision that would have placed a 10-year moratorium—later cut to five years—on state-level regulation of artificial intelligence was stripped from the bill earlier this week. Tech leaders had lobbied for the ban, arguing the need to comply with a patchwork of state rules would limit innovation in the high-stakes AI race.—*Melissa Korn*

Electric vehicles

The bill will quickly end subsidies of up to $7,500 for purchasing or leasing an electric vehicle, denying the credit for purchases after Sept. 30. That poses a challenge for automakers—from Tesla and Ford to BMW and Hyundai—that are already struggling to sell EVs in the U.S., where they have stalled at about 8% of the new-car market. An earlier version of the bill had kept subsidies for EVs in place into 2026.—*Christopher Otts*

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Solar and wind

After a 12-month runway to start new renewable-energy projects, developers won't qualify for special tax credits. U.S. factories that make renewable equipment, such as solar panels, should see a short-term bump in orders as developers try to beat the clock. Beyond that, they are worried customers will simply buy from China instead.—*Jennifer Hiller*

Shippers and online retailers

Direct-to-consumer brands like Sézane apparel and Diadora sneakers could be hit by a provision ending the de minimis rule that currently allows packages worth $800 or less to be imported duty-free from countries other than China and Hong Kong. FedEx, UPS, DHL, cargo airlines and passenger airlines that have in recent years benefited from a boom from ferrying e-commerce packages could see a pull-back in parcel volume if increased costs diminish consumer demand. The U.S. Customs and Border Protection said it processed four million de minimis packages a day in 2024.—*Esther Fung*

Food companies

Cuts to the nation's food stamp program, or SNAP, would be bad news for packaged-food companies. Big food companies especially rely on spending from SNAP recipients, and many have cited 2023 cuts to the program as a contributor to lower sales volumes. Bernstein analysts estimate that SNAP recipients account for nearly 9% of grocery spending on food and that Kraft Heinz, General Mills and J.M. Smucker could see the biggest hit from program cuts.—*Jesse Newman*

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Universities

The bill proposes taxing private college and universities' annual investment income at 8%, 4% and 1.4% depending on their level of wealth, up from the current 1.4% rate.

Small colleges with less than 3,000 tuition-paying students were winners, gaining an exemption. The California Institute of Technology and small liberal-arts schools with endowments north of $1 billion, such as Grinnell College and Bowdoin College, are expected to benefit.

The biggest losers are expected to be Harvard, Yale, Princeton, Stanford and the Massachusetts Institute of Technology—the schools expected to pay 8%. About 10 other research universities also are expected to pay a tax under the plan, which significantly shrinks the number of schools paying an endowment tax.—*Juliet Chung*

Hospitals

The bill reduces the power of states to boost Medicaid payments to hospitals.

States have increasingly imposed taxes on hospitals to trigger Medicaid matching funds from the federal government. Hospitals would typically balk at such levies, but in this case hospitals typically get back more money than they pay out in the form of higher payment rates.

The megabill reduces the maximum tax rate from 6% of hospitals' net patient revenue to 3.5% in the 40 states that have expanded Medicaid under the Affordable Care Act. Nonexpansion states will have their state "provider taxes" frozen in place at the time the bill is signed.—*Joseph Walker*

The Tech Industry Is Huge-and Europe's Share...

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THE WALL STREET JOURNAL.

The Wall Street Journal 19.05.2025

The Tech Industry Is Huge—and Europe's Share of It Is Very Small

A risk-averse business culture and complex regulations have stifled innovation on the continent, weighing on its future

BERLIN—The world's technology revolution is leaving Europe behind.

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Investors and entrepreneurs say obstacles to tech growth are deeply entrenched: a timid and risk-averse business culture, strict labor laws, suffocating regulations, a smaller pool of venture capital and lackluster economic and demographic growth.

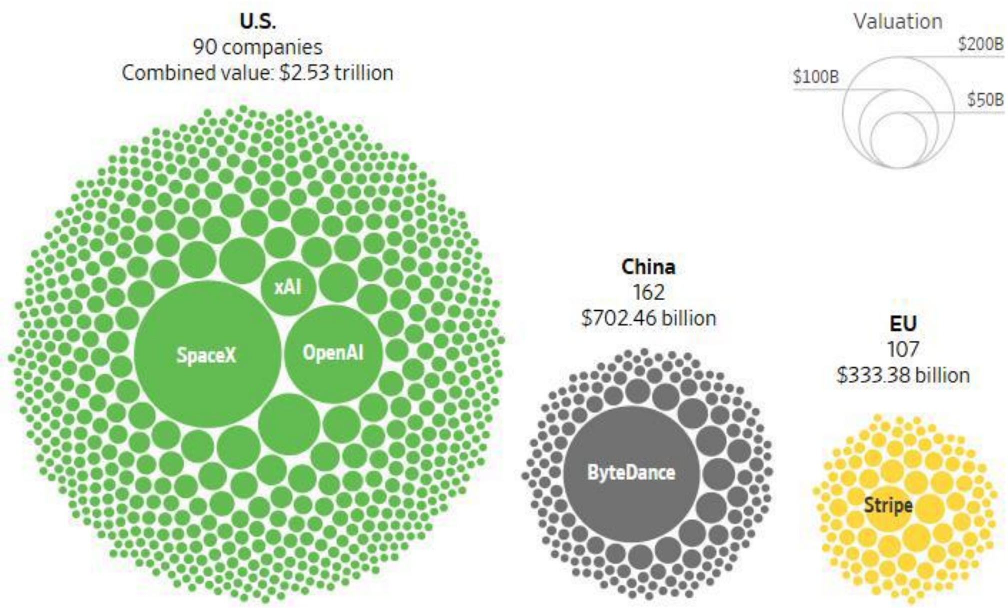
Thomas Odenwald, a German tech entrepreneur, left Silicon Valley in January of last year to join Aleph Alpha, a Heidelberg, Germany-based startup that aimed to go head-to-head with artificial intelligence leader OpenAI.

Odenwald had spent nearly three decades working in California but hoped he could help build a European tech giant to compete with the Americans. He was shocked by what he saw. Colleagues lacked engineering skills. None of his team had stock options, reducing their incentive to succeed. Everything moved slowly.

After two months, Odenwald quit and returned to California. "If I look at how quickly things change in Silicon Valley...it's happening so fast that I don't think Europe can keep up with that speed," he said. Aleph Alpha has since said it would move away from building a large-scale AI model and focus instead on contract work for government and businesses. The company said more than 90% of employees participate in its stock option program.

Having largely missed out on the first digital revolution, Europe seems poised to miss out on the next wave, too. The U.S. and China, flush with venture capital and government funding, are spending heavily on AI and other technologies that hold the promise of boosting productivity and living standards. In Europe, venture capital tech investment is a fifth of U.S. levels.

Privately held technology companies valued over $1 billion, by select country/region



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Marc Andreessen, the U.S. tech investor, posted a meme on his X account that showed an image of big AI players like OpenAI and Chinese rival DeepSeek fighting for dominance. At a nearby table, a figure labeled with the European Union flag sat apart, staring at an image of a plastic cap tethered to a drinks bottle—a new legal requirement in Europe aimed at encouraging recycling. The message: Europe is focusing on the wrong battles.

“This is an existential challenge,” wrote Mario Draghi, the former European Central Bank president who was tasked by the European Union’s top official to help diagnose why Europe’s economy is stagnating. In a report published last September, Draghi pinpointed the lack of a thriving tech sector as a key factor. “The EU is weak in the emerging technologies that will drive future growth,” he wrote.

Only four of the world’s top 50 tech companies are European, despite Europe having a larger population and similar education levels to the U.S. and accounting for 21% of global economic output. None of the top 10 companies investing in quantum computing are in Europe.

The problems go deeper than just tech and reflect a broader truth about Europe: It isn’t creating its share of new, disruptive companies that shake up markets and spur innovation.

Over the past 50 years, the U.S. has created, from scratch, 241 companies with a market capitalization of more than $10 billion, while Europe has created just 14, according to calculations from Andrew McAfee, a principal research scientist at the MIT Sloan School of Management and co-founder of AI startup Workhelix.

New companies and industries—think autos replacing horse and buggies—allows a country to produce more goods with the same amount of workers, a key driver of prosperity. Europe is dominated by old-school industries like autos and banks that extracted productivity gains long ago. The typical company in the top 10 publicly traded U.S. firms was founded in 1985, while in Europe, it was in 1911, according to the International Monetary Fund.

By the late 1990s, when the digital revolution got under way, the average EU worker produced 95% of what their American counterparts made per hour. Now, the Europeans produce less than 80%.

The EU economy is now one-third smaller than the U.S.’s and is stuck in low gear, growing at a third of the U.S. pace over the past two years.

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Digital winter

Europe has world-class research universities and a deep pool of engineering and scientific talent, much of which populates top U.S. firms. Spotify and fintech firms Revolut and Klarna are success stories. Venture capital arrived relatively late, but big U.S. venture-capital firms have set up shop in Europe in the past decade, including Sequoia Capital, Lightspeed, Iconiq and NEA.

"Europe is a much smaller market, but that doesn't mean it doesn't have great opportunities," said Luciana Lixandru, a partner at Sequoia Capital based in London.

Europe had a promising start. At the start of the digital revolution in the 1990s, the region boasted several leading semiconductor companies (Netherlands-based ASML, Britain's ARM), software giants (Germany's SAP) and the dominant player in mobile phones (Finland's Nokia). The World Wide Web was invented by a Brit, Tim Berners-Lee, working at a European research facility.

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A big reason why Europe is now behind can be summed up as a lack of speed. Entrepreneurs complain that everything takes longer in Europe: raising money, complying with local regulations, and hiring and firing workers.

"In Germany a lot of people are just too cautious," said Karlheinz Brandenburg, the German engineer who helped invent the MP3 digital audio compression format. German consumer-electronics companies didn't think the invention was important and didn't invest enough in it, he said, and then Apple seized on the invention in the early 2000s to sell nearly half a billion iPod players. Brandenburg is now seeking €5 million ($5.6 million) in financing for a next-generation headphones startup.

"What is different in America is the speed of almost everything," said Fabrizio Capobianco, an early tech entrepreneur from Italy who lived for decades in Silicon Valley. "Americans make decisions very fast. Europeans need to talk to everybody—it takes months."

Capobianco, who returned to Italy three years ago, is now building a startup factory in the Italian Alps to scout out European tech companies. The prize for the winners: a one-way ticket to Silicon Valley.

"I don't think you can replicate Silicon Valley" in Europe, said Capobianco. He wants other European entrepreneurs to follow his example: implant themselves in America's tech hub and manage teams of engineers located in Europe, where wages and living costs are lower. That inevitably means that the highest-value jobs will be in the U.S., Capobianco said.

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Most European startups find it so difficult to expand at the same pace as their U.S. counterparts that they typically move to the U.S., are bought by U.S. companies, or partner with them. One of the U.K.'s largest startups, delivery company Deliveroo, recently agreed to sell its business to U.S.-based DoorDash for $3.9 billion.

Even Europe's hottest AI firms are linking up with American firms rather than competing against them. London-based DeepMind was bought by Google parent Alphabet in 2014. Paris-based Mistral AI, which has raised over $1 billion in the race to build large AI models, has signed distribution deals with Microsoft, Google and Amazon.

In Europe, most business financing still comes from banks, which generally require physical collateral—a building, perhaps—in the event of losses. Other forms of financing include risk-averse public-pension funds. Early venture capital investors also demanded terms that left founders hamstrung, say entrepreneurs.

"There are a lot of scattered, small amounts of capital, and then you have these very large, slow-moving, bureaucratic, quasi-government agencies. And you don't have very much in the middle—the more dynamic endowment capital that is in the U.S.," said Hussein Kanji, an American tech investor who founded Hoxton Ventures, a London-based venture-capital firm.

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Complex regulations

Scaling up quickly in Europe is hard. The U.S. is a large integrated market, while Europe has dozens of countries with their own language, laws and taxes. Labor laws slow down worker mobility by making it harder to hire and fire workers. (There is often a three-month notice period in Europe for leaving a firm, and in some cases a six-month noncompete clause, jokingly known in Britain as "gardening leave.")

Until the past year or two, stock options in most European nations were little used because they were taxed as income before they vested.

Taxes are higher, and regulations designed to corral big business become a costly and time-consuming headache for startups.

It is easier for large AI companies in the U.S. or China to move to Europe than "growing out of Europe and to have to invest from the start to satisfy a much more complex regulatory framework," said Sebastian Steinhäuser, chief strategy and operating officer at German software giant SAP.

Europe's love of regulation is one reason why Han Xiao started to think about moving his Berlin-based AI startup to the U.S. He and two friends founded their company, Jina AI, five years ago after studying in Germany, aiming to apply machine learning to search information in unstructured data for companies.

"When Germans talk about AI, the first topic is ethics and regulation," whereas investors in the U.S. and China focus on innovation, Xiao said. Engineers in Berlin are also hard to find, he said. Xiao's attempts to fire underperforming workers have landed in court. His 17 employees tried to form a union.

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Xiao initially raised about $7 million from American and Chinese venture-capital firms and SAP's U.S. arm. His latest $30 million funding round was led by Silicon Valley investment firm Canaan Partners. The European market for AI technology is very small, Xiao said, with local clients adopting the technology slowly. After spending November and December in Palo Alto, Xiao decided to make the move to the U.S.

European businesses spend 40% of their IT budgets on complying with regulations, according to a recent survey by Amazon. Two-thirds of European businesses don't understand their obligations under the EU's AI Act, which came into force last summer, the survey found.

Meta delayed the launch of its latest AI model in Europe by nearly a year because of EU regulations. It began rolling out a limited version in March that doesn't include features like image generation or editing. Apple also postponed its new AI features for iPhones in Europe until recent weeks.

Software company Bird, one of the Netherlands' most successful startups, said recently it plans to move its main operations out of Europe to the U.S., Dubai and other locations due to restrictive AI regulation.

"Stop regulating, Europe. We might be the first, but we won't be the last (to leave)," Robert Vis, the company's founder, wrote on his LinkedIn page.

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Culture matters

European cities crowd the top spots on quality of life rankings, far ahead of their American counterparts. That lifestyle might contribute to less appetite for risk, along with a culture of equality that frowns on naked ambition.

"I get a lot of pitch decks that say, 'This could be a $50 to $100 million company,' and that doesn't really interest me," said Chris Hill, a Santa Monica, Calif., native who lives in London and manages a fund for EdenBase. He also notes that pubs in London's financial district are usually full at 2 p.m. on Thursdays.

The rise of venture capital in London could eventually create an entrepreneurial ecosystem where money, talent and ideas are circulating quickly, said Sebastian Mallaby, a fellow at the Council on Foreign Relations whose book "The Power Law" details how Silicon Valley built an entrepreneurial culture.

In some cases, though, old habits might die hard. The Draghi report, said McAfee at MIT, did a great job diagnosing Europe's lagging tech sector, but then urged governments to spend more public money spurring the sector, missing the point that it was private money that was absent—most likely due to regulation and other problems.

Said McAfee: "That's when I went from nodding my head in agreement to banging it on the table."

Can the Fed stay impartial in the age of Trump?

FINANCIAL TIMES

Financial Times 10.07.2025

Can the Fed stay impartial in the age of Trump?

The US president has repeatedly criticised Federal Reserve chair Jay Powell and pledged to install a more pliablesuccessor next year, raising questions about how long the central bank can remain above politics.

At the European Central Bank president's annual forum last month, Christine Lagardetook a moment to lavish praise upon a central banker from outside Europe's borders.

Jay Powell, she said, epitomised the "standard of a courageous central banker", leading toa rousing ovation for the Federal Reserve chair, who sat with at the top table with headbowed.

The tribute from central banking's elite stood in stark contrast to the treatment Powellreceived just hours before from the world's most powerful man.

US President Donald Trump had earlier posted a handwritten note on his Truth Socialplatform, his signature thick black Sharpie ink scrawled over a table of central bankinterest rates — the Swiss with the lowest and the US in 35th place. He lambasted Powell,whom he had appointed during his first term, for not lowering rates, saying he had "costthe USA a fortune".

The White House insists the Fed is a barrier to its efforts to boost US growth. SpokesmanKush Desai said Trump has "a First Amendment right as an American citizen and duty asour commanderin-chief . . . to voice his concerns about flawed policymaking", which headded was "needlessly holding back the economic resurgence that this administration istrying to unleash with a full suite of supply-side reforms".

But others believe it is more to do with federal borrowing costs in the context of rising gov-ernment debt. "It's pretty universal having a president who wants lower rates," says DonKohn, a former Fed vice-chair who is now at the Brookings Institution think-tank.

"What's unprecedented is [Trump] doesn't want lower rates to goose the economy, [forhim] it's about lowering the cost of the debt . . . That's worrisome because keying monetarypolicy to relieving budget pressures is a sure track towards higher inflation."

On Wednesday, Trump appeared to confirm this, posting on his Truth Social platform thatthe fed funds rate was "at least 3 points too high" and "costing the US $360bn a percent-age point in refinancing costs."

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Can the Fed stay impartial in the age of Trump?

FINANCIAL TIMES

The Fed has kept borrowing costs on hold at between 4.25 and 4.5 per cent this year, evenas other central banks have cut. At the ECB forum, Powell said that were it not for April's"liberation day" tariffs and their impact on US inflation forecasts, the Fed "would probablyhave cut rates [again] by now".

Frustrated by the Fed's stance, Trump has publicly criticised its chair, describing Powell as"stupid", "terrible", a "numbskull", "a stubborn mule" and "a total and complete moron."

In May, Powell was summoned for the first time to the White House, to account for theFed's actions before the president, vice-president JD Vance, commerce secretary HowardLutnick, Treasury secretary Scott Bessent and Kevin Hassett, chair of the National Eco-nomic Council.

Trump has also talked about firing Powell before the end of his term or nominating hisreplacement — a socalled shadow chair — well before then.

At stake is the continued separation of the Federal Reserve's monetary policy from politics,in place since 1951 and respected by most presidents and lawmakers ever since. The checksand balances intended to preserve that independence have so far remained largely intact— a Supreme Court opinion in May has eased fears that Powell will be fired, for instance —but they are being tested as never before.

The browbeating has alarmed investors, with the US currency falling to a three-year lowafter The Wall Street Journal reported that Trump could announce a shadow chair as earlyas the summer. The White House has denied a decision is "imminent" but at the end ofJune, Trump said he had a shortlist of "three or four names" to replace Powell.

Trump's unpredictable policymaking and verbal violence are not the only challenges facingthe Fed chair in his final 10 months doing the biggest job in central banking.

Consensus about the direction of interest rates among the 12 voting members of the Fed-eral Open Market Committee has also started to break down, after two signalled theywould vote for a cut at its next rate-setting meeting.

Powell has said he plans to remain in post until his term as chair expires in May 2026, andreplacing him with someone more pliable will not be straightforward.

His assiduous consensus-building among members of Congress could make the confirma-tion of an underqualified Trump loyalist tricky. The structure of the FOMC limits thechair's power, while some say Trump's outspoken criticisms of Powell will deter crediblecandidates from standing.

"You don't want to be seen as the person who succumbed to political pressure. And if youthought you were going to succumb, I don't see a person of even modest integrity accept-ing the job," says Raghuram Rajan, a University of Chicago academic who also faced polit-ical pressure during his time as governor at the Reserve Bank of India.

"I would think most people would simply say, 'Hang it, it's not worth it.'"

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FINANCIAL TIMES

Trump's unwillingness to offer a second term to Janet Yellen, breaking an almost 40-yeartradition of bipartisan support for incumbent Fed chairs, led him to nominate Powell — on the recommendation of then-Treasury secretary Steven Mnuchin — for the job in Novem-ber 2017.

At the time he warmed to Powell's moderate Republicanism, pro-markets approach andprivate-equity background. He also respected his experience as a Fed governor and theperception that he was more open to interest rate cuts than the other leading candidates —John Taylor and Kevin Warsh, both of the hawkish Hoover Institution at Stanford Uni-versity.

But Powell fell out of favour soon after taking office, as the FOMC raised rates at his firstmeeting in the chair and three more times during 2018. The following year, Trump ques-tioned whether China's president, Xi Jinping, or the Fed chair was more of a threat toAmerica.

He has made clear that his next pick for what he describes as "the best job in government"will be based less on knowhow, and more on kowtowing to the White House.

"Whoever's in there will lower rates," the US president said in the Oval Office in late June."If I think someone is going to keep rates where they are, I'm not going to put them in."

But Fed insiders believe Trump is underestimating the challenges his nominee might faceonce they enter an institution with a long history of independence from government.

"The memory of the 1970s is seared into the institutional framework of the Fed," saysDiane Swonk, chief economist at KPMG US. "Even the janitor there knows who the worstFed chair in history was," she adds — a reference to Arthur Burns, who cut rates followingpressure from Richard Nixon ahead of the 1972 presidential election, only for inflation tosoar and growth to collapse after the oil price shock in 1973.

His successor Paul Volcker, now regarded as one of the most effective chairs, had to raiseinterest rates to double digits to tame inflation, enduring public opprobrium as unemploy-ment topped 10 per cent.

The Fed has faced periodic brickbats from presidents ever since. George HW Bush, inwhose administration Powell served as a Treasury official, blamed Fed chair Alan Green-span for his 1992 defeat to Bill Clinton, though Greenspan survived and was evenreappointed for a fifth term by Bush's son in 2004.

Powell absorbed the most important lessons of Greenspan's long tenure: counter chal-lenges from the executive branch and maintain good relations with Congress. "Right fromthe moment [Powell] became Fed chair, the number of visits to the Hill spiked up, relativeto his two predecessors," says Sebastian Mallaby, a senior fellow for international econom-ics at the Council on Foreign Relations and the author of a Greenspan biography.

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Tellingly, Trump's attacks on the Fed have seldom been echoed by members of Congress.Republican Senator John Kennedy has even defended him publicly, saying he had "tiger blood" and was "not going to go down in history as the Federal Reserve chairman thatallowed inflation to become wild as a March hare".

Current and former officials say the fusion of monetary theory and operational independ-ence into frameworks that target a specific level of inflation has helped the central bankappear more apolitical.

"The Fed as an institution has a much more fine-grained grip on its own policy doctrine,"says Mallaby. "There was very much a kind of flying-by-the-seat-of-your-pants, ad hoccentral bank policymaking in the '70s. That's very, very different to where the Fed istoday."

The FOMC's unusual organisational structure may also yet prove an obstacle to Powell'ssuccessor simply carrying out Trump's wishes. "There's some fiction that the chair justgets his way — that's not at all the case," says Jon Faust, a Johns Hopkins professor whoserved as a special adviser to Powell. "The chair is a powerful figure in building consensus,but no policy gets adopted without convincing the majority of the committee it's the bestthing to do."

Sitting on that committee are seven Washington-based governors and the presidents of the12 regional Feds — private institutions from across the US — of whom five vote on monet-ary policy. They are appointed by boards composed of local financiers and business leadersand can be fired only by a majority of the board governors.

John Williams of New York, Austan Goolsbee of Chicago and Alberto Musalem of St Louis— all of whom are voting FOMC members — have been far more strident than Powell inwarning of the damage that Trump's trade war will do.

Trump's four years in office will yield just two open seats among the governors. The firstbecomes available in January, offering Trump a chance to put his pick on to the FOMCahead of Powell leaving office. The second is Powell's own seat, at the end of January2028, although he has not revealed whether he plans to stay on as a governor when histerm as chair ends.

While governors have often not served out their full 14-year terms, insiders say many ofthose on the board are acutely aware of the pressure leaving early would place on the insti-tution.

Within 48 hours of the FOMC's June 18 meeting, Christopher Waller, a candidate toreplace Powell, told CNBC that recent data on inflation was good enough to warrant a ratecut as soon as July.

By June 23, Michelle Bowman, Trump's pick to head up banking supervision, had followedsuit. The prospect of two Fed governors voting against the chair — something that lasthappened in 1993 — has led to unease within the institution that Trump's blows are start-ing to land.

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Other FOMC members regard Powell as an effective consensus builder, suggesting acouple of votes against him will not be a killer blow. The dissenters' views are not far fromthose of other FOCM members; a majority, including Powell, is likely to support a cut inSeptember if inflation remains benign.

But if tariffs push prices up over the coming months, the FOMC may take a September cutoff the table. That could increase tensions with the White House and prompt Trump toname his pick to replace Powell early.

Another possible candidate, Treasury secretary Scott Bessent, mooted the idea of a shadowchair ahead of Trump's re-election in November, telling Barron's it would mean "no one isreally going to care what Jerome Powell has to say."

The theory is that investors do not just react to what central banks do, but what they thinkthey will do. If Trump's nominee signals aggressive cuts are on the way, investors willadjust their rate expectations from mid-2026 onwards, lowering federal borrowing costs.

It only works if the central bank's jawboning is credible — but investors are already listen-ing. They have responded to the shadow Fed chair rumours by pricing in more rate cuts,albeit fewer than Trump would like.

Bessent has since appeared to cool on the idea, saying in late June he did not think anyonewas "necessarily talking about" the idea of a shadow Fed chair. But talk still swirls aboutpotential candidates, who are thought to include NEC chair Hassett and Stanford's Warsh.

Whoever Trump picks will need to be confirmed by the Senate, where Republican controldoes not guarantee that a nominee will be confirmed. "We've seen the Senate acquiesce toDonald Trump's desires, but there is a lot of support in Congress on both sides of the aislefor Fed independence," says Kohn.

"A person who was perceived as just doing whatever the president wanted, and trying toget the FOMC to do whatever the president wanted, I think — maybe this is a hope — would have a very difficult time getting approved."

Kohn adds that Trump's calls for rapid rate cuts would put the shadow Fed chair "in a verytricky position" once they join the FOMC. "That person needs to work with his colleagues,"says Kohn. "He needs to think about how he's going to lead the committee."

The FOMC could shatter convention by naming someone other than the Fed chair to leadthe committee. But a likelier outcome is that Trump's pick ends up following Powell's play-book by ignoring demands for rate cuts once in office.

"Even if they listen to the president now, they could become much more independent oncethey become chair," says Rajan. "They know history will judge them. And you don't wantto end your [career] doing miserably."

INDICE

Can the Fed stay impartial in the age of Trump?

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In 1987, President Ronald Reagan nominated Greenspan to replace Volcker partly becausehe was expected to deliver lower rates. Instead, Swonk of KPMG US says, he proved "polit-ical, but not politically pliable".

Powell says he wants to focus on getting inflation back to its target level of 2 per centwithout destroying the jobs market. "I'm hopeful that we'll look back on 2025 as a yearwhen we successfully challenged some significant economic changes," he said at the ECBforum, to more applause.

"What keeps me awake at night is, how do we get that done?"