

Former Fed chair warns Trump's sacking of Fed governor "profoundly dangerous" for US credibility

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Former US Federal Reserve chair and treasury secretary Janet Yellen has weighed into the controversy surrounding President Trump's sacking of Fed governor Lisa Cook for "cause," warning it was not only "unlawful" but "profoundly dangerous" for the global position of the United States.

This assessment was made in a comment piece published in the *Financial Times* (FT) earlier this week.

"It represents a direct attempt to politicise the Fed, intimidate its leadership and bend monetary policy to the president's will. This action threatens to end the independence of the Federal Reserve—and with it, the credibility of the US's monetary policy both at home and abroad."

On the issue of the sacking itself, Yellen took on Trump's claim that Cook had been sacked for "cause" saying the law was clear.

"Federal Reserve governors serve 14-year terms precisely so they cannot be tossed aside by presidents who dislike their views or who seek their allegiance. Removal 'for cause' is intended for documented misconduct. 'Accusations' are not 'cause.'"

In his letter dismissing Cook "effective immediately" on Monday, widely characterised as a putsch, Trump based himself on the accusations first raised by Bill Pulte, head of the Federal Housing Finance Agency.

Pulte, a well-known Trump attack dog in his war against Fed chair Jerome Powell, claimed that in 2021 Cook had falsified documents for mortgages she had obtained in 2021 in order to obtain a lower interest rate, and referred the issue to the Justice Department.

Before any charges, let alone convictions. Trump said in light of Cook's "deceitful and potentially criminal conduct in a financial matter" he had no confidence in her integrity and determined he had "sufficient cause" to remove her.

Cook filed a lawsuit in federal court in Washington yesterday against Trump's action saying it violated her

constitutional rights, including her Fifth Amendment right to due process because she was removed without "any process whatsoever."

Whatever the truth of the accusations against Cook, given the fact that Trump is surrounded by convicted felons and is one himself, her sacking has nothing to do with any possible financial impropriety on her part. It is an escalation in his drive to take presidential control of the key financial institution of the US state and subordinate it to his policies.

In her comment piece Yellen spelled out the effects of Trump's actions.

"This is not about one Federal Reserve governor," she wrote. "It is about intimidation. By targeting Cook, Trump is sending a chilling message to every member of the Federal Reserve board and to the regional reserve bank presidents who take part in the Federal Open Market Committee [the interest-rate setting body]: express disagreement with the president's views and you are next."

Trump's war of words against Powell and his efforts to find a mechanism by which to sack him centre on the Fed's refusal—at least so far—to cut its interest rates since last December and that even if cuts are made they will not be anything near the three-percentage-point reduction Trump has demanded.

Trump's actions, so often dismissed as some kind of idiosyncrasy, personality disorder, or megalomania—all of which may well exist—are being driven by powerful objective forces rooted in the deepening crisis of American capitalism.

One of its manifestations is the rise of government debt and the payment of interest on it, which is fast becoming the biggest item in the US budget—outstripping even the

military—and leading to a situation where more borrowing must be undertaken just to pay the interest on past debt.

Yellen referred to this issue in her comment, noting that a key administration priority was for the Fed to substantially reduce the cost of the US government's \$37 trillion debt.

"The consequences," she warned, "are likely to be catastrophic. History offers a blunt lesson: chaos follows when leaders capture their central banks and force them to buy government debt or force them to hold down debt service expense."

She cited the experiences of Germany in the 1920s and Argentina and Turkey more recently, noting that politicised central banks deliver "higher inflation, volatile growth and weakened currencies" and that such a road "cannot be good for the US."

She also pointed to the international consequences of the Trump agenda and the dollar's role as the global currency.

While she did not refer to it, this pertains to the dollar's transformation into a fiat currency, after Nixon removed its gold backing in August 1971. Without any backing in real value, the stability of the dollar depends on confidence in the US state and its financial institutions.

"The Fed's credibility in crafting a responsible monetary policy underpins confidence in the dollar and in Treasury securities, which are widely regarded as the world's safest assets. If markets believe the Fed's hand is guided by political orders, every interest rate decision will lose credibility. Inflation expectations could become unmoored. The dollar's standing as the world's reserve currency would be imperilled," Yellen wrote.

Her comments are an expression of widely held assessments in media and financial circles of the significance of the Cook sacking.

Stephen Brown of Capital Economics told the FT that "we are heading back to a world in which the Fed is far more politicised" and that brought risks of "greater uncertainty about the interest rate outlook and, by extension higher long-term interest rates."

Priya Misra, a portfolio manager at JP Morgan Asset Management, told the newspaper that Trump's placing of his allies on the Fed's board "could lead to the risk of an erosion of Fed independence and this explains the immediate reaction of a weaker dollar and a steeper [interest rate] curve as inflation risk should rise."

The chief economist at JP Morgan, Michael Feroli, has said that if Trump were successful in ousting Cook "the outcome would be momentous."

Lars Christensen, who heads Paice, a consultancy firm, told the FT: "The situation and what we have seen in Turkey are eerily familiar. It takes a while to erode an institution's credibility."

The rating agency S&P Global has said that if questions were raised about Fed independence it could further lower its rating for the US after it downgraded it to AA+ in 2011.

The *Economist* magazine noted in an editorial that the sacking of Cook was not about mortgage fraud but, "like a show trial, is a message to anyone who serves on the Fed's board that Mr Trump can impose his desire for low interest rates."

The independence of the Fed was being attacked "just as the government is racking up debt at a worrying pace" and the "more interest payments rise, the more tempting it will be to lean on the Fed, whichever party is in power."

That was at least a limited attempt to advance an objective explanation, rooted in the crisis of American capitalism, for Trump's action which, as the editorial noted, had never been tried before.

But Yellen could offer no coherent explanation, concluding her comment by saying that Trump's effort to tear down Fed independence "for personal gain is reckless, corrosive, and profoundly un-American."

Yellen's myopia and her focus on Trump's personality derive from her political outlook as a rusted-on Democrat. Toeing the party line, she made no attempt to place Trump's move against the Fed in its broader context, that is, in his efforts to establish presidential dictatorship under conditions of a deepening crisis, the spearhead of which is the bringing in of the military into major US cities and about which the Democrats have remained silent and completely subservient.

Trump's actions are not an aberration. In fact, contrary to Yellen, they are as American as apple pie—a confirmation of the prescient analysis of Leon Trotsky nearly a century ago, that the real face of American capitalism would be revealed not in a period of boom but in one of crisis.



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