Sacked Fed governor initiates significant legal case against Trump

Nick Beams
1 September 2025

Judge Jia Cobb will today take written submissions from sacked Federal Reserve governor Lisa Cook's lawyers and from the Trump administration as she determines whether her sacking by Trump last week can go ahead.

Cook has filed a lawsuit against Trump's actions in what is seen as a major legal battle involving the independence of the Fed from direct political control.

Whatever Cobb's decision, the case will almost certainly go to the Supreme Court and so the immediate issue will be whether Cook can continue to remain at her post in the interim.

Cobb heard verbal arguments last Friday and did not give an indication of which way she was leaning, directing questions to both sides before calling for written arguments.

Trump last week declared Cook to be sacked "effective immediately" on the basis that she had falsified information on mortgage applications for two properties in 2021—before she was appointed to be a Fed governor the following year—by claiming both were her primary residence entitling her to a lower interest rate.

Whatever the facts of the mortgage case, Trump's attempt to remove her is part of his drive to bring the Fed under his control by putting his supporters on the seven-member board of governors, which plays the central role in the determination of interest rates by the 12-member Federal Open Market Committee (FOMC).

Trump has been continually pushing for interest rate cuts by as much as 3 percentage points and denouncing Fed chair Jerome Powell as a "numbskull" and a "moron" for his failure to reduce rates since last December.

Powell's base of support is in the board of governors who are appointed by the president of the day, with Senate confirmation, for fixed 14-year terms.

But cracks began to appear at the FOMC meeting in July when two governors, Christopher Waller and Michelle Bowman, both Trump appointees in his first term, dissented from the decision to keep interest rate on hold—the first time this has happened in more than three decades.

Trump blurted out his key objective shortly after announcing his sacking of Cook saying: "We'll have a majority very shortly."

Cobb is expected to announce her decision on Cook's immediate future before the next meeting of the FOMC on September 16-17.

The Senate is holding a confirmation hearing on Thursday on the appointment of one of his chief economic advisers Stephen Miran to fill the vacancy left by the resignation of Adriana Kugler before her term expired in January next year.

The statues governing the operations of the Fed state that governors can only be sacked for "cause."

But there is no case involving a Fed governor which determines exactly what "cause" constitutes. It is generally regarded as malfeasance, criminal activity, neglect of duty, or corruption. Cook, however, has not been charged with any civil or criminal violation.

Her lawsuit stated that Trump had "concocted" a basis for her firing and that his actions were an attack on the Fed's independence.

"Even if the President has been more careful in obscuring his real justification for targeting Governor Cook, the President's concocted basis for removal—the unsubstantiated and unproven allegation that Governor Cook 'potentially' erred in filling out a mortgage form prior to her Senate confirmation—does not amount to 'cause' within the meaning of the FRA [Federal Reserve Act] and is unsupported by case law."

The real reason, it said, was to “effectuate her prompt removal” and enable Trump to advance his agenda to undermine Fed independence.

The Trump administration called on the court to deny Cook’s right to return to work while the case was determined saying it was “meritless” and “unlikely to succeed.” The Justice Department is looking into the issue of Cook’s mortgages but so far she has not been charged.

The Fed did not intervene directly in the hearing before Judge Cobb, saying only that it wanted a “prompt” decision.

The response from academic circles and some finance representatives has been to warn that Trump’s move to take control of the Fed risks undermining confidence in US institutions, the global role of the dollar and financial stability.

Comments by Douglas Rediker, a former US representative at the International Monetary Fund and the founder of a financial advisory firm, to the *New York Times* were typical of many.

“It sends a message that is more akin to a chaotic, dysfunctional system than what the markets in the US and globally have always assumed of the Fed, which is that is the gold standard for governance, for independence, for prudence and policymaking.”

A survey by the *Financial Times* (FT) of 94 economists in the US and Europe found only one who said Trump’s actions did not constitute a “meaningful risk” to the economy.

Moritz Kraemer, chief economist at the German lender LBBW said: “In order to get a sense of the risks the White House is running by trying to subjugate the central bank, we need look no further than Turkey.” And he noted that the US dollar has “more credibility to lose” than the Turkish lira.

Karsten Junius of the private bank J Safra Sarasin said the Fed had to “fight for its survival or risk a US dollar crisis.”

Some 42 percent of the respondents said Trump’s action risked unleashing strong inflationary forces, while 35 percent believed the biggest risk was a loss of confidence in US Treasury bonds.

Despite such warnings, of which there are many, there has been no market reaction so far. This in contrast to the earlier threats to sack Powell and turbulence in April in response to the initial announcement of Trump’s reciprocal tariffs when the interest rates on Treasury bonds moved up sharply and, contrary to normal experience, the dollar fell.

One explanation is that the markets have adapted themselves to what has been called a new paradigm where central banks are subject to so-called “fiscal dominance” under which rising debt in US and Europe means they are subject to the demands of governments to keep interest rates low, as demanded by Trump, and there is still money to be made.

A recent FT article on why corporate and business leaders in the US had so far not publicly opposed Trump cited the anonymous remarks of a senior finance executive and longtime Democrat donor.

“I find what he is doing abhorrent, but the truth is I’ve been a beneficiary of Trump’s policies. The ‘big beautiful bill’ cut my taxes, boosted cash flow for my company, and pumped stimulus into the market—so my portfolio keeps growing.”

His remarks recall those of Chuck Pince, the then CEO of the major US bank Citigroup, in July 2007 who explained his outlook. “As long as the music is playing, you’ve got to get up and dance. We’re still dancing.”

Little more than a year later in September 2008 the deepest US financial crisis since the Great Depression erupted, emanating from the speculation and parasitism at the heart of its US financial system and spreading rapidly to the rest of the world.