Amid conflict over Powell indictment, attention turns to Supreme Court decision on Fed governor Lisa Cook

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As conflict continues over the legal action via the Department of Justice (DoJ) against Fed chair Jerome Powell, attention is being directed to a Supreme Court hearing next week which could have even more significant implications for the so-called independence of the US central bank.

Next Wednesday, the Supreme Court will hear arguments on whether the Trump administration can sack Fed governor Lisa Cook "for cause."

Cook was sacked "effective immediately" via a social media post by Trump at the end of August with claims that she had falsified information on mortgage applications for two properties she purchased in 2021.

The move sent a shock wave through the financial world. In the words of the *Financial Times* (FT)*:* "Trump's late-night putsch represents one of the gravest challenges to the Fed since it became independent 74 years ago, and marks a stunning escalation in the president's attacks on the US economic establishment."

In various legal actions, including a shadow docket ruling by the Supreme Court, Cook has successfully resisted moves to have her ousted from the Fed's governing body before the issue was finally determined.

The case is regarded as potentially more significant than the attack on Powell because a decision against Cook would enable Trump to install an acolyte to the Fed. It would also create conditions where the threat of being removed "for cause" hung over every other member of the bank's policy making body if they defied Trump's demands for a major reduction in interest rates, possibly to as low as 1 percent.

These issues were raised in a recent note issued by Bank of America economist Aditya Bhave.

"If the Court rules against Cook, that would significantly raise the probability that Powell could also be removed based on the DoJ investigation," he wrote. "We have been arguing that the Cook case is even more important for policy trajectory than the identity of the next Fed chair. We think that's even more true now."

The *Wall Street Journal* made a similar assessment. It reported that according to "some analysts" the Cook case could be "what matters most for markets, because that would determine how easy it is for Trump to fire officials who he sees as standing in the way of lower rates."

Powell has received support from key figures in the US financial establishment, including all living former central bank governors and from central bankers around the world who issued a statement declaring their "full solidarity" with the Fed chief. A significant omission was the central governor of the Bank of Japan, leading to conjecture this was because the government did not want a conflict with Trump.

The statement, organised by the European Central Bank, said the "independence of central banks is a cornerstone of price, financial and economic stability in the interest of the citizens that we serve."

The notion of "independence"—tied to the claim that central banks somehow serve the interests of the public or the people—is a fiction. Central banks serve the interests of financial capital.

The conflict has arisen because they consider that Trump's push for lower rates—aimed at enhancing the interests of the most speculative sections of capital involved in crypto, real estate other risky areas from which Trump himself emerged—will set off inflation and spark a wages movement of the working class.

And they are also deeply fearful that under conditions where the US is the most indebted country in history—$38 trillion and counting—direct political control will lead to a collapse in confidence in the US dollar and undermine the

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American and global financial system.

So far finance capital has been able to withstand major economic storms—the crisis of 2008 and the March 2020 freeze of the US Treasury market—because of massive bailouts, running into many trillions of dollars, organised by the US government and the Fed. But if there is a crisis of confidence in the dollar that is no longer possible.

The reaction of economists to the attack on Powell has been to point to the global implications of the decision. Australian independent economist Chris Richardson said the action against Powell undermined trust in the global financial system.

"The world is built on trust, and this is a direct attack both on the trust that the world can have in the US and its institutions—both its justice system and is central bank," he said.

Another Australian economist Saul Eslake said the action was what people had come to expect from the Trump administration before issuing a pithy comment on its modus operandi.

"This reminds me of a Peruvian dictator in the 1930s who famously said, 'for my friends, everything, for my enemies, the law."

One of the most significant warnings as to the global implications of Trump actions has come from the US economic historian Barry Eichengreen, a long-time analyst of the global financial system, in a comment piece published in the FT earlier this week.

"Is the Trump administration's latest attack on Jay Powell and the Federal Reserve a serious threat to the dollar's position as the leading international and reserve currency, and therefore to global economic and financial stability? The answer, in a word, is yes," he wrote.

Expressing the position of powerful sections of the financial establishment, he said that anyone with a "modicum of financial literacy" would consider Trump's position "crazy" because sharp interest rate cuts when inflation was already significantly above 2 percent would "fuel inflation, demoralise investors and ignite a rush out of dollar assets."

Linking the attack on Powell and the Lisa Cook case, he said investors would react negatively, "even violently," to Trump stacking the Fed board and directing monetary policy.

"Central bank reserve managers, and indeed investors in general, require assurance that the central bank of the reserve-currency country will not come under irresistible political pressure to pursue a misguided monetary policy that inflates away the value of their claims."

While he did not directly refer to it, his comments point to the "nightmare scenario" that haunts all serious analysts of the American financial system: that at some point global investors and central banks, facing inflation and a falling dollar, will be forced to cut and run and withdraw their money from the $34 trillion US Treasury market through which the massive American debt is financed, bringing about a collapse.

There are even signs in the US of a move out of dollar assets. The giant bond trading firm Pimco, which has $2.2 trillion of assets under management, has said that it is diversifying because of Trump's "unpredictable" policies and that the firm is in "a multiyear period of some diversification away from US assets."

Eichengreen countered the argument that because there is no real alternative to the global dollar this rendered it impervious to the actions of the Trump administration.

"That there is no alternative is correct, but the implication of immunity is not. Central bank reserve managers have already been rebalancing their portfolios towards gold and non-traditional reserve currencies."

If continued it could lead to a shortage of international liquidity, and he concluded with a sharp warning.

"We have seen this scenario once before, where governments compromised the autonomy of their central banks, spawning financial instability and causing global liquidity to implode. We saw it in the 1930s."

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