

No. 25A312

IN THE
Supreme Court of the United States

DONALD J. TRUMP, PRESIDENT OF THE UNITED STATES,
ET AL.,

Applicants,

v.

LISA D. COOK,
MEMBER OF THE BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM,

Respondent.

**On Application to Stay to the United States Court
of Appeals for the D.C. Circuit**

**BRIEF OF ECONOMICS PROFESSORS AS AMICI
CURIAE OPPOSING THE STAY APPLICATION**

Carter G. Phillips
Jeffrey T. Green
CARTER G. PHILLIPS
CENTER FOR SUPREME
COURT AND APPELLATE
ADVOCACY
Northwestern Pritzker
School of Law
375 East Chicago Ave.
Chicago, IL 60611

Seth P. Waxman
Counsel of Record
Thomas G. Saunders
Megan O. Gardner
WILMER CUTLER PICKERING
HALE AND DORR LLP
2100 Pennsylvania Ave., NW
Washington, DC 20036
(202) 663-6000
seth.waxman@wilmerhale.com

Charlotte Geaghan-Breiner
WILMER CUTLER PICKERING
HALE AND DORR LLP
2600 El Camino Real, Ste. 400
Palo Alto, CA 94306

Counsel for Amici Curiae

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INTERESTS OF *AMICI CURIAE*¹

Amici are long serving Professors of Economics who have researched, studied, and published on the topics of central banks and monetary policy. Although the *amici* professors have emerged from different backgrounds and viewpoints, and are allied with different institutions, they are unanimous with regard to the vital need for a Federal Reserve that is free from political interference, including attempts to manipulate the composition of its Board of Governors. They have no personal stake in the outcome of this litigation but submit this brief as a means to provide the Court with essential economic context surrounding the institutional design of the Federal Reserve and the critical importance of its independence to the nation's long-term economic prosperity and stability.

Professor Olivier Blanchard is the Robert M. Solow Professor of Economics emeritus at the Massachusetts Institute of Technology ("MIT") and a Senior Fellow at the Peterson Institute for International Economics in Washington, D.C. He served as the Chief Economist of the International Monetary Fund ("IMF") from 2008 to 2015 and is past president of the American Economic Association. Among many other books and articles, Professor Blanchard has authored widely used textbooks on macroeconomics for both undergraduate and graduate studies.

¹ Pursuant to Rule 37.6, *amici* affirm that no counsel for a party authored this brief in whole or in part, and that no person other than *amici* or its counsel made any monetary contributions intended to fund the preparation or submission of this brief.

Professor Michael Bordo is a Board of Governors and Distinguished Professor of Economics Emeritus and former director of the Center for Monetary and Financial History at Rutgers University in New Brunswick, New Jersey. He is a Research Associate of the National Bureau of Economic Research. He is also the Duncan Stewart Distinguished Visiting Fellow at the Hoover Institution, Stanford University. He has published many academic papers and books on monetary economics and history. He has also published with, among others, the Cato Institute and the American Enterprise Institute. He is the author of *THE HISTORICAL PERFORMANCE OF THE FEDERAL RESERVE: THE IMPORTANCE OF RULES*, Hoover Institution Press, 2019.

Professor Barry Eichengreen is the George C. Pardee & Helen N. Pardee Chair and Distinguished Professor of Economics and Political Science at the University of California, Berkeley, where he has taught since 1987. He is a Research Associate of the National Bureau of Economic Research in Cambridge, Massachusetts, and Research Fellow of the Center for Economic Policy Research in London, England. Among many other publications, Professor Eichengreen is the author of *EXORBITANT PRIVILEGE: THE RISE AND FALL OF THE DOLLAR AND THE FUTURE OF THE INTERNATIONAL MONETARY SYSTEM*, Oxford, 2011.

Professor Eric Leeper is the Paul Goodloe McIntire Professor in Economics and Director of the Virginia Center for Economic Policy at the University of Virginia. He also serves as a Research Associate at the National Bureau of Economic Research. Previously, he served as an external advisor to the

Swedish Central Bank and was a member of the Research Council of the Bundesbank.

INTRODUCTION AND SUMMARY OF ARGUMENT

There is a long history of central bank independence in the United States and an equally long, and unfortunate, history of challenges to that independence. At several important points in this history Congress endeavored to strengthen that independence. The Banking Act of 1935 expanded the terms of the members of the Federal Reserve Board to 14 years. It also implemented a “for cause” removal provision to insulate the Governors from political pressure. The incorporation of the “for cause” limitation was meant to create a buffer between the nation’s monetary policy and the Executive Branch. This allowed monetary decisions to prioritize long-term economic stability.

The removal of a Governor without process and over an unproven and petty allegation of pre-office wrongdoing would undermine that Congressional mandate, fatally weaken the Federal Reserve’s independence, and in turn, raise dangers of inflation and currency instability that harm the economy. Historical and empirical research offers ample evidence of these dangers. The inevitable manifestation of these dangers would contravene Congress’s additional mandate for the Federal Reserve: To “promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.” 12 U.S.C. § 225a.

ARGUMENT

I. Congress Established For-Cause Removal Protections in 1913 and Strengthened Them in 1935 to Prevent Political Interference and Ensure Economic Stability.

When the nation faced a financial crisis in the Panic of 1907, Congress responded by passing the Federal Reserve Act of 1913. The Act's core mandate was to provide "a uniform and elastic currency" that could accommodate the ever-changing needs of the economy, and to serve as "a lender of last resort" to prevent banks from failing during banking panics. *See* Michael D. Bordo, *A Brief History of Central Banks* 2, Fed. Rsrv. Bank Cleveland (Dec. 1, 2007), <https://tinyurl.com/y3hfcfdz>.

The Act created the Federal Reserve Board to oversee the newly formed Federal Reserve System. *Id.* The Board initially had seven members: the Secretary of the Treasury, the Comptroller of the Currency, and five presidential appointees serving staggered 10-year terms. Federal Reserve Act of 1913, Pub. L. No. 63-43 § 10, 38 Stat. 251, 260–61. Even at its founding, Congress deemed it necessary to impose a "for cause" check on the removal of members of the Board of Governors. *Id.* The system's initial design also decentralized monetary policy among twelve regional Reserve Banks. *Id.* While this further limited the scope for interference by the executive branch, it left the Board in Washington, D.C. with a very limited ability to make a unified response to any economic or financial shock.

This weakness in the structure of the Federal Reserve proved disastrous during the Great Depression. As Professor Bordo notes, the financial crisis was widely blamed on central banks. They then “lost their independence and became appendages of the fiscal authorities.” Michael D. Bordo, *Federal Reserve Credibility and Reputation in Historical Perspective* 4 Shadow Open Mkt. Comm. (Nov. 3, 2014), <https://tinyurl.com/2wfb2p3p>. The economic collapse necessitated a redesigned Federal Reserve, one that could act in the country’s economic interest.

Congress’s 1935 reinstatement of the “for cause” limitation on the removal of governors (which had been dropped in 1933 when the country abandoned the gold standard in the midst of its greatest-ever financial crisis), once again imposed exactly the buffer between the nation’s economic policy and the Executive Branch for which Congress had provided. Gary Richardson & David W. Wilcox, *How Congress Designed the Federal Reserve to Be Independent of Presidential Control*, 39 J. Econ. Persp. 221, 228–29 (2025). That buffer has proved vital to the independence of the Federal Reserve and other central banks because it has allowed monetary decisions to prioritize long-term economic stability over inevitable, short-term political desires. Empirical evidence has shown that for cause-type limitations statistically correlate with positive economic outcomes. See Nergiz Dincer, Barry Eichengreen & Joan Martinez, *Central Bank Independence: Views from History and Machine Learning*, 16 Ann. Rev. Econ. 393, 415 fig. 4 (2024).

The 1951 Treasury-Fed Accord was the next crucial step in securing the Federal Reserve's operational independence. Fed. Open Mkt. Comm., *Record of Policy Actions*, in 38 Ann. Rep. of the Bd. of Governors of the Fed. Rsrv. Sys. 98 (1951), <https://tinyurl.com/yse49uz4>. Both during and after World War II, the Federal Reserve was forced to support the Treasury's fiscal policy of maintaining low interest rates on government debt. But prior to the Korean War in 1950, there was a surge in inflation, creating conflict between the Truman Administration and the Federal Reserve. This was resolved by the Treasury-Federal Reserve Accord of 1951, which formally ended the subordination of the Federal Reserve's monetary policy to the Treasury's fiscal demands.

II. Erosion of Federal Reserve Independence Threatens The Dollar's Global Dominance And The Benefits It Confers On the United States.

After World War II, the United States was the world's leading trading nation and the only country with deep and liquid financial markets open to the rest of the world. It followed that the U.S. dollar's singular status was singled out in the Bretton Woods Agreement signed in 1944, and that the dollar remains the leading currency used in cross-border payments, giving U.S. banks and firms the cost efficiency and convenience of being able to do international business in their own native currency. The dollar is held as foreign reserves by central banks and governments worldwide, creating a captive demand for U.S. debt securities that enables the U.S.

Treasury to borrow at lower interest rates than otherwise. The dollar's safe-haven status—the fact that it is regarded as a safe and liquid asset by official and private investors around the world—means that the dollar typically strengthens rather than collapses in periods of economic and political volatility. In effect, this gives the U.S. a form of financial insurance against global shocks. The dollar's dominant role also gives the United States significant power over the international financial system. Sam Boocker & David Wessel, *The Changing Role of the U.S. Dollar*, Brookings (Aug. 23, 2024), <https://tinyurl.com/259z9vd6>. As a result, our financial sanctions on other countries are more effective than they would be otherwise.

Federal Reserve independence was critical for the dollar achieving and retaining this dominant international role. That independence assured foreign governments holding and using dollars that such security would not be tampered with by politicians. The independent Federal Reserve delivered low and stable inflation, which made it attractive for foreigners as well as U.S. residents to transact in dollars and hold the greenback as reserves. The Federal Reserve had the insulation from politics to intervene in foreign exchange markets on rare occasion, and to extend dollar swap lines to foreign central banks in need of dollar liquidity.

The United States was far from alone in valuing and benefitting from an independent central bank. The end of the Bretton Wood System of fixed exchange rates in 1971 ushered in a dramatic global evolution of central banks seeking to position themselves as

reliable sources of price stability. Under Bretton Woods, other central banks anchored their currencies to the dollar, whose own stability was secured by an independent Federal Reserve. But with the breakdown of Bretton Woods and the advent of floating exchange rates, these central banks adopted the alternative of inflation targeting by an independent central bank insulated from political pressures. Christopher Crowe & Ellen E. Meade, *The Evolution of Central Bank Governance around the World*, 21 J. Econ. Persp. 69, 88 (2007); Alex Cukierman, *Central Bank Independence and Monetary Policymaking Institutions—Past, Present and Future*, 24 Eur. J. Pol. Econ. 722, 727 (2008). Inflation in the 1970s further underscored the need for monetary institutions and policies that would keep prices stable and inflation in check. Crowe & Meade, 21 J. Econ. Persp. at 88; Cukierman, 24 Eur. J. Pol. Econ. at 727. Central bank independence helped address these problems.

Beginning in the 1980s and continuing through the turn of the century, central bank independence has gained traction in developed and developing nations, a “historic accomplishment” that is particularly beneficial for emerging economies and low-income households, who are most vulnerable to high inflation. See Olivier Blanchard, Giovanni Dell’Ariccia, & Paolo Mauro, *Rethinking Macroeconomic Policy* 3, 11 Int’l Monetary Fund, (Feb. 12, 2010), <https://tinyurl.com/5fbmxsxa>. This trend is evident in indices of average or overall central bank independence, but also in subindices that focus specifically on provisions limiting the dismissal of

sitting governors/board members. *See* Dincer, et al., *supra*, at 395–398.

The structure and authority of the Federal Reserve also allows for a “competition in ideas,” where different members of the Board of Governors can promulgate different monetary policy, leading to a more robust and deliberative Federal Reserve. Michael D. Bordo & Edward Simpson Prescott, *Federal Reserve Structure, Economic Ideas, and Monetary and Financial Policy* 3–5, 57–58 (Nat’l Bureau of Econ. Rsch., Working Paper No. 26098, 2019), <https://www.nber.org/papers/w26098> (arguing that the Federal Reserve decentralized private-public governance structure designed to maintain independence and enable competition in ideas). As the Federal Reserve itself has stated, this independence fosters price stability which is a prerequisite for achieving sustainable employment. *Id.*

Taken together, this history demonstrates the wisdom of Congress in attempting to insulate the Federal Reserve from political influence. And the structure of the Federal Reserve as it stands is a direct result of lessons learned throughout our nation’s history, often at great economic cost.

III. Political Control Over Governor Removal Threatens Fiscal Dominance That Destroys Monetary Policy Credibility.

Both theory and evidence point to the tendency for politicians with short horizons to apply pressure to central banks to aid in the pursuit of objectives that may conflict with the institution’s mandate; for

example to finance an excessive government budget deficit or enhance spending in the run-up to elections. See William Nordhaus, *The Political Business Cycle*, 42 Rev. of Econ. Studies 169 (1975); see also Alberto Alesina, Nouriel Roubini & Gerald Cohen, *Political Business Cycle and the Macroeconomy* (1997). These same studies point to the critical importance of independence for insulating the central bank from such pressures and enabling it to achieve its mandate. *Id.*

If an administration can remove governors at will, political actors gain the same control over monetary decisions that Congress structured the Federal reserve to avoid. Richardson & Wilcox, 39 J. Econ. Persp. at 228–29; Charles I. Plosser, *Federal Reserve Independence: Is it Time for a New Treasury-Fed Accord?* at 2 (Hoover Inst. Econ. Policy Working Paper 22104, 2022), <https://tinyurl.com/2y4s4jb2> (explaining the 1951 Accord “prevented an administration from deciding unilaterally to use monetary expansion to gain temporary political advantage”). The exercise of such political power puts the Federal Reserve on a path of conflict with its Congressional mandate given the known economic harms that follow such acts of political dominance.

* * *

CONCLUSION

For these reasons, the Court should deny the application for stay.

Respectfully submitted,

Carter G. Phillips
Jeffrey T. Green
CARTER G. PHILLIPS
CENTER FOR SUPREME
COURT AND APPELLATE
ADVOCACY
Northwestern Pritzker
School of Law
375 East Chicago Ave.
Chicago, IL 60611

Seth P. Waxman
Counsel of Record
Thomas G. Saunders
Megan O. Gardner
WILMER CUTLER PICKERING
HALE AND DORR LLP
2100 Pennsylvania Ave., NW
Washington, DC 20036
(202) 663-6000
seth.waxman@wilmerhale.com

Charlotte Geaghan-Breiner
WILMER CUTLER PICKERING
HALE AND DORR LLP
2600 El Camino Real, Ste.
400
Palo Alto, CA 94306

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