Trump, the Fed and the New York Times

By Nick Beams
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US President Donald Trump has again criticised the Federal Reserve Board for not doing enough to juice up the stock markets through the supply of still more ultra-cheap money.

In a tweet last Sunday he said: "If the Fed had done its job properly, which it has not, the stock market would have been up by 5,000 to 10,000 additional points and GDP would have been well over 4 percent instead of 3 percent… with almost no inflation. Quantitative tightening was a killer, should have done the exact opposite!"

Trump has launched a series of attacks on the Fed since the stock market plunge last December when the Dow Jones Industrial Average experienced its worst result for December since the depths of the Great Depression in 1931.

The plunge came in response to an interest rate rise of 0.25 percent—the fourth for the year—and indications by the Fed that it would continue rate rises in 2019, as it sought to "normalise" monetary policy after pushing rates to record lows in response to the financial meltdown of 2008.

The Fed also attracted the ire of financial markets because of its moves to wind down holdings of the financial assets, US Treasury bonds in the main, which it had purchased under its "quantitative easing" program and which had provided a further stimulus to parasitic speculation in the financial markets. The Fed's holdings of such assets had blown out to $4.5 trillion from around $800 billion prior to 2008, and Fed Chair Jerome Powell said their reduction would proceed by $50 billion a month, carried out as if on "auto pilot."

Stung by the market reaction, the Fed immediately jumped into line. In January, at the first available opportunity, Powell made it clear in a speech that there would be no further interest rate rises this year. The about-turn was endorsed by the Fed's policy-setting Open Market Committee at its March meeting, when it ruled out interest rate rises for the rest of this year and the foreseeable future.

It also decided that the wind-down of the Fed's asset holdings—the policy of "quantitative tightening" denounced by Trump and a slew of critics on Wall Street—would be ended in September, leaving the Fed with around $3.5 trillion on its balance sheet.

But these measures have not been sufficient for Trump and the speculators, financial gamblers, real estate sharks and outright criminals on Wall Street for whom he speaks. He has continued to denounce the Fed, with his National Economic Council Director Larry Kudlow calling for an interest rate cut of 0.5 percent and even the resumption of the Fed's quantitative easing asset purchasing program.

Trump and his administration are motivated by fears that with the prospect for the first half of this year of an earnings recession—two successive quarters in which corporate profits fall below the increase reached in the previous quarter—combined with slowing global growth and the inversion of the yield curve, as interest rates on long-term bonds fall below those on short-term debt, the US economy could move into a recession, combined with a major fall on the markets.

These fears are heightened by the realisation that the corporate tax cuts, enacted at the end of 2017, have not brought about a take-off in the US economy, through the increase in investment and decent-paying jobs, as forecast by Trump, and their limited effect are rapidly wearing off.

The administration fears that a recession will explode Trump's claims about a jobs revival, especially in the economically devastated areas of the Midwest and Appalachia that provided a crucial base of his support in the 2016 election, and lead to a social explosion from below across the US.

Trump has not only continued his denunciations of the Fed, he has doubled down. In line with his appointments of loyalists to key positions in his administration, particularly in the major security agencies, he has mooted the appointment of two acolytes, Stephen Moore and Herman Cain, to vacant positions on the Fed's governing council. While these positions are subject to Senate approval and therefore face the possibility of being blocked, the Trump move, coming on top of his attacks on the Fed's monetary policy, has raised concerns in ruling circles both in the US and internationally about the Fed's "independence."

Speaking to reporters at the spring meeting of the International Monetary Fund last week, Mario Draghi, the president of the European Central Bank (ECB), the world's second most important financial institution, took the highly unusual step of commenting on the Fed. "I am certainly worried about central bank independence in other countries, especially in the [US], the most important jurisdiction in the world," he said, emphasising that independence was crucial for the credibility of central banks in making their decisions.

The *New York Times* devoted an editorial on the operations of the Fed on April 9. It began by echoing criticisms of its actions, noting that, together with Congress, "it failed to take sufficient action to revive the economy after the 2008 financial crisis," and that "some liberals have complained for years about the Fed's lack of urgency as millions of Americans struggled to find jobs, or lived without significant wage increases."

Reflecting the efforts by the Democratic Party to promote the illusion that there is a prospect for reform of the capitalist system if only the mindset at the top is changed, the *Times* ' criticism of Congress and the Fed that they should have done more to alleviate the devastating social impact of the financial meltdown is aimed at preventing a real understanding of what took place and why.

The Fed's actions were never aimed at supporting the American population. From first to last, it has carried out a class agenda. Its initial response was to rescue the Wall Street banks and finance houses, whose activities, in some cases criminal, had sparked the crisis. Then it poured trillions of dollars into the pockets of the financial oligarchs to provide them with the resources with which to continue their accumulation of profit through speculation, institutionalising the siphoning of wealth up the income scale that has produced the greatest social inequality in history.

Likewise, on the side of fiscal policy, the Obama administration carried out a class agenda. It insisted that while trillions were available for the banks, there was no money for anything even faintly resembling the New Deal measures of Roosevelt in the 1930s.

There were two factors at work in this process. First, American capitalism no longer enjoyed the vast economic superiority that had enabled Roosevelt to carry out what Leon Trotsky had labelled his "experiments." Second, any move to implement such a program would have cut directly across the central aim of the Obama administration, which was to utilise the social crisis to carry out a restructuring of class relations in the US in order to boost corporate profits.

This objective was summed up in the statement by his then-Chief of Staff Rahm Emanuel: "You never let a serious crisis go to waste. And what I mean by that, it's an opportunity to do things you think you could not do before."

That agenda was put into practice in the restructuring of General Motors and Chrysler, with the collaboration of the United Auto Workers union, opening the way for an onslaught not only on the wages and working conditions of autoworkers, but across the board, combined with the development of new forms of intensified exploitation such as those pioneered by Amazon.

The *New York Times* is not opposed to the central thrust of Trump's call for more money to be pumped into the financial system because it is the spokesman for the same class forces, above all the financial elites, which Trump represents.

But it is concerned, like Draghi at the ECB, that Trump's outbursts tend to expose too nakedly the class role played by central banks—a role the media, bourgeois politicians, academia and economic think tanks seek to mask with their promotion of the fiction of central bank "independence."

Throughout the history of capitalism, the bourgeoisie and its ideologists have advanced the social lie that the actions of its economic and financial institutions do not flow from the class organisation of society, but are the outcome of objective laws—akin to the laws of Nature—before which humanity must bow if society is not to collapse.

Accordingly, the editorial inveighs against Trump's proposal to appoint two loyalists to the Fed's Board of Governors on the grounds that it would "upend a long bipartisan commitment to filling to the Fed's board with highly qualified technocrats who seek to serve the nation's long-term economic interest," and that the Fed is sheltered from political interference "so it can make difficult decisions in the interests of the American people."

The history of so-called central bank independence—adopted by the Fed and its counterparts around the world over the past three decades and more—exposes these fictions.

The key financial institutions of the capitalist state have never been independent of the financial aristocracy, operating somehow above society as the guardian of its long-term interests. But the way in which this function has been carried out has altered in accordance with shifts in the structure of the global economy and its financial system.

The doctrine of central bank "independence" was progressively invoked in one country after another from the mid-1980s to the early 1990s in response to the vast changes in the world economy arising from the globalisation of production and the domination of global finance capital over all national economies.

This meant that national economic and financial regulation—political intervention at the national level—was a thing of the past, and central banks had to determine their policies in line with the demands of global finance capital, of which US finance is a major component.

No matter what the consequences for the population of a given country, those dictates had to be carried out. In the words of British Tory Prime Minister Margaret Thatcher, who, together with US President Ronald Reagan, was the political spearhead for this shift, "There is no alternative."

If Draghi and the *New York Times* feel compelled to rush to the defence of central bank "independence" and insist that the policies of these organisations have to be determined by "technocrats" in accordance with supposed natural laws, it is because this doctrine forms a central component of the growing ideological and political struggle against the perceived danger of socialism.

Mankind, it is maintained, can penetrate to the outer reaches of the universe, even probing and charting black holes, can delve into the structure of the atom and even life itself through the analysis of DNA, but it cannot take conscious control of its own socio-economic organisation to ensure that it meets human need. The laws of capitalism, enacted through central bank "independence," along with private ownership and private profit, are natural and eternal and therefore no other form of society is viable.

This does not mean that control of the sinews of finance should now be handed back to the control of a cabal of capitalist politicians in order to promote the "national interest." Nor does it signify the viability of the so-called modern monetary theory advanced, among others, by the "left" Democrat Alexandria Ocasio-Cortez and various neo-Keynesians. This bankrupt theory maintains that since money is issued by a sovereign state, it can be expanded without fear of bankruptcy and the acute and growing social and economic problems can therefore be somehow alleviated within the framework of the capitalist profit system.

Under conditions where the financial system of every country, including the US, is dominated by the global flow of capital and money, the implementation of this version of "America First" would be met with a violent reaction on the bond markets, a plunge in the dollar, rising interest rates and deep recession.

All such national programs have been rendered utterly reactionary by the globalisation of the productive forces—in and of itself a highly progressive development that provides the objective basis for the international unification of the working class.

The perspective for which the working class must fight has to be grounded on this objective foundation. Its program must be based neither on a return to the national hearth, nor determined by the dictates of finance capital as administered by "independent" central banks and technocrats that serve its interests. It must develop a political struggle for the expropriation of the entire financial system, placing it under democratic control, as the first and necessary step in the development of a planned international socialist economy to meet human need.