Behind Trump's clash with the Fed: Looming economic crisis and class conflict

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18 April 2019

The repeated calls by President Donald Trump for the US Federal Reserve to loosen its monetary policy and provide a further boost to the stock market expose the economic and political reality behind the mask of official ideology.

In his latest remarks, contained in a tweet last Sunday, Trump said the Dow Jones Industrial Average would be 5,000 or even 10,000 points above its present near-record level if the Fed had not tightened interest rates last year. He demanded that the central bank resume the program of "quantitative easing," under which it poured trillions into the financial markets in the wake of the 2008 finance crash.

For more than three decades the stock market has served as the primary financial mechanism through which the American ruling class has carried out an unprecedented redistribution of wealth from the working population to the rich. Under Democratic as well as Republican administrations, the Dow has risen 17-fold since 1985 on the basis of a relentless assault on workers' jobs and wages and cuts in education, health care and other social services.

Under Obama, the Dow rose more than 250 percent. Under Trump, it has risen a further 32 percent.

The official refrain has been the lie that "there is no money" for schools, health care, housing or pensions, while unlimited sums have been squandered to pay for more yachts, private islands and Manhattan penthouses for the modern-day aristocrats, along with new and more deadly conventional and nuclear weapons to prepare a new military Armageddon.

Wealth and income inequality have reached record levels, consolidating the rule of the financial oligarchy over every aspect of American social and political life.

Trump is simply declaring openly what the Fed has been doing throughout this period, behind the official pretence of "neutrality" and "independence"—and demanding that it do more of it.

If there are objections to Trump's comments from the *New York Times* and other key sections of the political and media establishment, on the grounds that they infringe on the Fed's "independence," it is not because of any disagreement with the fundamental direction of his policies. They are concerned that Trump is seeking to transform the US central bank from the instrument of the ruling class as a whole into that of his own faction. But Trump's factional opponents within the ruling elite base themselves on the same forms of financial parasitism as those sections for whom the real estate swindler-turned president speaks.

The legal mandate of the Fed is to adjust monetary policy so as to ensure stable prices and maximum employment, irrespective of the ups and downs of the stock market. But the Fed has been directly tailoring its policies to prop up the financial markets since the stock market plunge of October 1987, when Wall Street fell more than 22 percent in a single day and the then-Fed Chairman Alan Greenspan announced that the financial spigots were open.

This led to what became known as the Greenspan put: That when the markets began to falter, the Fed would be ready to step in to boost them with the provision of cheap money. Greenspan did make one attempt to curb what he termed "irrational exuberance" in 1996, but such was the adverse reaction from the financial elites that it was never again attempted.

From then on, the official mantra was that it was impossible to tell if a financial bubble was in formation and the markets had to be given their head, with the Fed intervening to support them when their speculative activities gave rise to a crisis.

This program was intensified after the financial crash of 2008, when the government doled out hundreds of billions of dollars to bail out the banks and the Fed initiated its policy of quantitative easing, providing trillions of dollars of ultra-cheap money to ensure that the speculative binge continued and expanded.

At the same time, it was insisted that corporate taxes had to be continually reduced. This has now resulted in a situation where, as a recent analysis revealed, 60 US corporations, appropriating billions of dollars in profits, paid no tax in 2018, with some receiving a tax refund.

Trump's latest intervention is accompanied by the claim that the US economy is powering ahead and could grow even faster if only the Fed stopped holding it back. But rather than indicating strength, Trump's ultimatums express a deepening crisis and fear that the financial house of cards will collapse unless still more money is pumped into the system.

Claims of the underlying strength of the US economy are belied by basic facts. The present interest rate of between 2.25 percent and 2.5 percent is one of the lowest in economic history, but the Trump administration wants it cut by at least 0.5 percent.

The stock market, bloated by financial speculation, is like a drug addict who demands more as his underlying health continues to deteriorate. When the US financial markets neared bear market territory earlier this year and Wall Street demanded that the Fed halt its policy of incremental rate increases, the Fed snapped into line and Chairman Jerome Powell announced it would abandon its efforts to "normalize" interest rates, leading to the latest rally, which has pushed the Dow to within a few points of its record high.

At the end of 2017, Trump claimed that the trillions of dollars handed out in corporate tax cuts would cause the economy to roar ahead with expanded investment and the provision of well-paying jobs. This lie has been exposed as the vast bulk of the money the tax cuts provided has gone for share buybacks and other parasitic means of pumping more money into the coffers of the rich.

Now the global economy, upon which the US economy is dependent notwithstanding Trump's claims of the success of his "America First" program, is experiencing a significant slowdown after a brief upturn in 2017.

In its latest economic outlook, the International Monetary Fund cut its forecast for global growth, warning that 70 percent of the world economy was undergoing deceleration, a phenomenon concentrated in the advanced economies, including the US. Those warnings have been underscored by the announcement on Wednesday by the German government that it was halving its forecast for economic growth in 2019 to just 0.5 percent.

The Trump administration is frightened by the prospect of a recession, or even a significant slowdown in the economy, fueling the growing wave of strikes and protests and transforming it into a social explosion, not only in the so-called rust belt areas that voted for his presidency, but across the country.

These fears extend beyond the White House. In a recent essay, the head of the hedge fund Bridgewater Associates, the multibillionaire Ray Dalio, warned that when there is a "very big gap" in the economic conditions of people, a downturn can lead to conflict and "revolutions of one sort or another."

With interest rates already at historic lows, Dalio said he was "worried what the next economic downturn will be like, especially as central banks have limited ability to reverse it."

It is above all the fear within the ruling elite of growing socialist sentiment in the working class that underlies both Trump's self-proclaimed war against socialism and the bipartisan attack by the ruling elite on democratic rights.