Trump and the Federal Reserve: US Shadow Bankers About to Deepen Control of US Economy

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What's sometime referred to as 'shadow bankers' have been running the economy and drafting US domestic economic policy since Trump took office. 'Shadow' banks include such financial institutions as investment banks, private equity firms, hedge funds, insurance companies, finance companies, asset management companies, etc. They are outside the traditional commercial banking system (e.g. Chase, Bank of America, Wells, etc.) and virtually unregulated. Shadow banks globally now also control more investible liquid assets than do the world's commercial banks.

It was the shadow banks–investment banks like Lehman, Bear Stearns, insurance giant AIG, GE credit and others that precipitated the 2008 financial crisis that then froze up the entire credit system and led to the 2008-09 collapse of the real, non-financial economy. None of the CEOs of the shadow bank system went to jail for their roles in the collapse. And now they are back–not only reaping record profits and asserting even greater influence over the US and global economy; but have penetrated the political institutions of control in the US and other advanced economies even more than they did pre-2008.

Shadow Bankers On the Inside

In the US, shadow bankers from Goldman Sachs, the giant investment bank, took over the drafting of US economic policy when Trump took office. (Trump himself, a commercial property speculator, is part of this shadow banker segment of the US capitalist elite). Running the US Treasury is ex-Goldman Sacher, Steve Mnuchin. On the 'inside' of the Trump administration is Gary Cohn, chair of Trump's key advisory, 'Economic Council'. Together the two are the original drafters (which was done in secret) of the recent Trump Tax cuts that will yield a $5 trillion windfall for US businesses, especially multinationals. (More on this in my forthcoming article, to be posted here subsequently).

Mnuchin is leading the charge for the Trump deregulation offensive, especially financial deregulation. Mnuchin recently took the offensive as well with public statements indicating it was US policy that US dollar exchange rates remain at record low levels. Why? To ensure US multinational corporations' offshore profits are maximized when they convert their profits in local currencies back to the dollar, before they repatriate those profits back to the US at the new lower Trump tax rates (12% instead of 35% repatriation tax rate) and, even more lucratively, when they pay no taxes on offshore profits virtually at all starting 2019.

Goldman Sachs and the shadow banker crowd's economic influence extends beyond the US Treasury and Economic Council. The New York Federal Reserve's district president, Dudley, is also a former Goldman Sach employee. He announced he'll be resigning this year. The New York Fed is the key district of the Fed responsible for US Treasury securities buying and selling. Watch for another Goldman Sacher to replace him, or some other former high level senior exec from private equity or hedge fund industry.(For my analysis of the rising global shadow banking sector and its destabilizing role, check out my 2016 book, *'Systemic Fragility in the Global Economy*', Clarity Press, and specifically chapter 12, 'Structural Change in Global Financial Markets').

Shadow Bankers Will Run the Fed

Trump and fellow shadow bankers are about to further solidify their control of US economic policy at the Fed as well. The Fed's chair will soon be Jerome Powell. But several Fed governor positions have been vacant for some time, as is the vice-chair of the Fed. Watch for appointees from the shadow banks here as well.

Fed governors are officially supposed to serve 14 year terms. (They, along with Fed district presidents constitute the important FOMC, Federal Open Market Committee, that make day to day decisions at the Fed on matters of short term interest rate changes and such). But the Fed governors in recent decades never remain the 14 years. In fact, recently they remain around 3-4 years, if that. They leave early to take senior positions in the banking and shadow banking world. It's a 'revolving door' problem.

Bankers get appointed to Fed governor and Fed district president positions, make decisions beneficial to their former banker buddies, and then leave early to return to their banker roots, with highly remunerative positions once again (often 'do-nothing' sinecures). As former governors they also go on the speech circuit, speaking at banker and business conferences, for which they're paid handsomely, in the tens of thousands of dollars for a 20 minute speech. (Former Fed chairpersons, like Ben Bernanke and soon Janet Yellen get even more generous handouts, paid in the several hundreds of thousands of dollars a speech. They also get nice book contracts as they leave, with prepayments in the millions of dollars upfront, with guaranteed book purchases by corporations, and the best promotional efforts by publishers).

Trump's appointment, and recent approval by the US House and Senate, of Jerome Powell to head the Fed is only the beginning. The vice-chair and several open Fed governor positions will enable Trump and Mnuchin to stack the deck at the Fed with their appointees. That will solidify Trump's, and the shadow banker community's, control of the Fed and ensure its policy direction will reflect Trump's economic objectives of boosting business incomes, especially multinational corporations.

Central Bank Independence–But from Whom?

Mainstream economists write incessantly about the need to ensure 'central bank independence' (Fed) from elected government representatives. But they miss the more fundamental fact that it is the bankers themselves (especially now shadow bankers) that ultimately control the Fed. While mainstream economists talk about independence from government representatives, they ignore the deeper control (often through those representatives) of the Fed, and all central banks, by the bankers themselves.

Are Mnuchin, Cohn, Dudley and others really government 'representatives'? Or are they shadow bankers first and foremos, who have managed to capture key positions in the government apparatus? Do the 'revolving door' former Fed governors act independently? Or do they decide with a keen eye on a lucrative offer from the private banks after a few years in office during which they 'prove' their value to the bankers? Do the Fed chairs and vice-chairs make decisions solely in the public interest at all times? Or are they perhaps too aware of the opportunity to become quick multimillionaires themselves once they leave office, recompensed nicely in various ways once they leave? And why is it that at the 12 Fed districts, the district president selection committee of 9 district board directors are almost always 'stacked' by 5-6 former regional bankers or banker business friendly former CEOs?

In my just published book, '*Central Bankers at the End of Their Ropes',* Clarity Press, August 2017, I examine this 'myth of central bank independence' in detail, and show how central banks, including the Fed, from their very origins have always been dependent (not independent) on the private banks rather than from elected government representatives. Central banks emerged from the private banks and have always been an appendage of sorts of that private banking system. This fact is supported today more than ever by the fact that Fed and central banks' policy since 2000, and especially since 2008, has been to ensure the subsidization of financial institutions' profitability. It's no longer just serving as 'lender of last resort' to bail out the private banks periodically when they get in trouble (which chronically occurs). Now it is permanent subsidization of the private banking system.

A Constitutional Amendment to Democratize the Fed

In the book I also propose in the addendum a constitutional amendment and enabling legislation that will sever the relationship of the central bank, the Fed, from the banking industry (and its government representatives) for good. (see the reviews and information re. the book,'*Central Bankers at the End of Their Ropes*' on this blog, my website, kyklosproductions.com, and at Amazon books. See the book's addendum for the amendment and enabling legislation).

The trend in banker control of the Fed–and thus US economic policy–is about to deepen as Trump fills the open governor, chair, and vice-chair positions at the Fed in coming months. This will begin immediately after Jerome Powell assumes the chair position from Janet Yellen in early February 2018.

Economic Consequences of a Trump Fed

The shadow bankers, who gave us the last financial crash in 2007-09, will then be in total control–at the Treasury, in the White House, at the New York Fed, and in a majority of the Fed governorships. They will support Treasury Secretary Mnuchin's policies–keep US rates at levels to ensure that the US dollar's exchange rate is low versus other key world currencies. That will ensure that US multinational corporations' profits offshore are not threatened, as they bring back those profits in 2018 at lower tax rates, and then can bring back profits thereafter without paying taxes on offshore profits at all for the next nine years.

The next financial crisis and crash is coming. It is not more than two years away, and could come sooner. The Fed will be totally unprepared and unable to lower interest rates much in response. It will then re-introduce its massive free money injections into the banking system, as it did with 'QE' for seven years starting with 2009. The Fed and other central banks provided 'free money' in the amount of at least $25 trillion to bail out the private banks over the last 9 years. How much more will they give them next time? And will it be enough to stabilize the US and world financial system? And will the Fed and US government then legitimize and legalize the private banks' taking the savings of average depositors and converting those savings to worthless bank stocks? UK and US government preparations are already underway for that last draconian measure. For even today, when one deposits one's money in a bank, that money legally becomes 'owned' by the bank.

Trump's imminent appointments of Fed chairs, vice-chairs, and governors may prove historically to be the first step in the total capture of the US central bank by the shadow banker element in the US economy–by the Goldman Sachers, the private equity firms, the hedge fund vultures, and the commercial real estate speculator that is Trump itself.

We now have government by the bankers unlike ever before in the US. And their policies will inevitably lead to another financial crisis. Only this next time, the rest of US will be even less prepared and able to endure–given the decade of stagnant wages, new record in household debt, collapsing savings rates, greater reliance on part time/temp/gig employment, decline of pensions, loss of social benefits and safety net, higher cost of healthcare, and all the rest of the economic decline that is afflicting more than 100 million households in the US today.

Meanwhile, Trump will soon go to Davos, Switzerland, to party with the rest of the World Economic Forum's multimillionaire-billionaire class. They will celebrate and pat themselves on the back about how well they've done for themselves in 2017: record profits, record stock markets' price appreciation, record dividend payouts to wealthy shareholders, new tax laws that mean they can keep more of those profits and capital gains, continuing austerity for the rest, further destruction of unions (called 'labor market reform'), decline and co-optation of remaining social democratic parties, etc. At Davos Trump will bask his ego and give an 'American First' speech, largely for public consumption to his base in the US. 'America First' means Trump, and his more aggressive wing of US capital, are signalling they plan to squeeze the rest of the world's capitalists for a US larger share. So they'll have to take even more out of their workers with austerity, wage compression, social benefits reduction, and even more 'labor market reform'.

The Davos crowd may think they are sitting on their mountain in Switzerland, but they are really partying on the Titanic, as they steam on oblivious to what's coming, unable to foresee the approaching economic icebergs below the surface. And as their mainstream economists, asleep on the bridge, almost in unison declare 'steam on', all is well and getting better.

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Dr. Jack Rasmus is author of the recently published, 'Central Bankers at the End of Their Ropes: Monetary Policy and the Coming Depression', August 2017, and 'Systemic Fragility in the Global Economy', 2016, both by Clarity Press.

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