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The Federal Reserve and Its Murky Role in the US Election

VALENTIN KATASONOV

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In December 2015, the US Federal Reserve's Federal Open Market Committee (FOMC) decided to raise interest rates. For the first time in seven years the Fed hiked the rate by a quarter percentage point. The target range for the fed funds rate was set at 0.25 - 0.50%.

It was a move that got a reaction all over the world. In the US, the Fed's decision was widely seen as a sign that the country was emerging from its economic crisis, that unemployment had fallen to a socially manageable level, that an investment boom had begun in the real economy, and that there would be no replay of the financial crisis. But when it came to the reaction in the rest of the world toward the Fed's December decision, it was apparent, first of all, that on the global markets cash had now begun to flow in the direction of the US. Other nations' economic problems worsened, including China's.

Prominent American advisers, the directors of the 12 Federal Reserve banks, and even the chair of the Federal Reserve System herself, Janet Yellen, started to talk as though the December decision was just the starting point. As though an era of rate hikes was beginning. As though in the next two years the Fed would gradually bring the benchmark interest rate up to 3.0 - 3.5%.

The Fed's FOMC makes the rate decisions and is required to meet eight times per year. But it has held several meetings since last December without a single new increase. Ms. Yellen has been very quiet. Analysts have calculated that in the first eight months of 2016 she released official statements only twice, not counting the press conferences after Fed meetings and her testimony before Congress. For comparison, by this time last year Yellen had issued seven announcements, and in 2014 - ten. Since 1996, the Fed chair has made an average of 19 official speeches per year.

Pundits have two explanations for the lady's «coyness». First of all, the financial picture in America today and throughout the world looks much as it did in 2007, just as the global financial crisis was about to hit. A careless statement by the Fed chair could spark a new crisis. Second, the US is just about to elect a new president. Again, a careless word from Yellen could hurt the Democratic candidate, Hillary Clinton. Although chairs of the Federal Reserve are supposed to remain above the political fray, everyone knows that Yellen is a Democrat and knows how to toe the party line.

Many Americans are troubled by this prolonged lull before the promised hike in the Fed's benchmark rate. Trump is also concerned and has repeatedly expressed his unease. He articulates his point very clearly. The current interest rate set by the US Federal Reserve is so cheap that money is practically free. Trump is a businessman who naturally loves cheap money. However, as the next president, he must also bear in mind the future of his entire country. And cheap money is a ticking time bomb waiting to go off in the US.

This is creating a growing bubble in the financial market that will surely trigger a new financial crisis. For this reason, as the next US president, he needs Janet Yellen, as the chair of the Federal Reserve, to immediately raise the benchmark rate. Trump has repeatedly made such statements this year, and last May he promised to dismiss Yellen from her position as chair of Fed's Board of Governors as soon as he takes office.

On Sept. 12, Donald Trump offered yet another statement, while being interviewed on CNBC. But this one was slightly different, because this time he leveled accusations of negligence not only against Janet Yellen, but also Barack Obama. He said specifically, «It's staying at zero because she's [Janet Yellen - V. K.] obviously political and doing what Obama wants her to do».

According to Trump, Yellen is «keeping them [interest rates] artificially low to get Obama retired», referring to Obama's desire to leave office on a positive note and with a favorable legacy. But when Trump gets to the White House he will have to clean up the mess Yellen and Obama left behind.

Of course there's more than a bit of political blustering in Trump's claims. It's not yet evident that Trump has any serious plan to restructure the American financial and economic system. There does not appear to be anyone within his entourage or circle of advisers who would be capable of drawing up such a program, much less helping to implement it.

Of course, one of Barack Obama's campaign promises was to radically reform the US financial and banking system in order to avoid a repeat of the 2007-2009 financial-crisis nightmare. And the Dodd-Frank Act - otherwise known as the Wall Street Reform and Consumer Protection Act - would not have passed in 2010 without his support. However, that law was DOA, because Wall Street bankers effectively blocked its enforcement.

The problem is that the Federal Reserve is a private corporation, and the chair of the Fed's board of governors has always taken orders only from that corporation's shareholders - which primarily consist of the biggest banks on Wall Street. They're the real money masters. And apparently they are once again planning to replay the old script from the 2000s, which means heating up the financial market using cheap (free) money. Realizing that this will generate a second, inescapable wave of the financial crisis, Trump is trying to shift the blame onto Obama in advance. Whether or not he succeeds, the real architects of the crisis will certainly stay in the shadows.