

Weaponizing the US Financial System

The U.S. financial system has historically been an engine of the country's financial strength and the envy of the world. In 2024, the foundations of the system are threatened by self-serving elements of both major U.S. political parties — in both cases to achieve narrow political ends at the expense of the nation as a whole. George Washington warned us in his farewell speech about the danger of factions (i.e. political parties) — and his prophecy rings true today. And as for Alexander Hamilton, the architect of our centuries strong financial system, he's likely rolling in his grave over the misadventures various actors in our political landscape are currently pursuing.

In recent years, both the independence and fairness of the U.S. financial system have been put at risk by those seeking to weaponize the US financial system for their own political ends. A candidate of a major political party has mooted that they want to meddle in the setting of central bank interest rates to favor their private preferences rather than leaving that to an independent body that is dedicated to the public good. And regulators installed by the opposite party are looking to use regulation by enforcement and consent decrees (rather than rule making) to cover the banking industry into creating winners while shaming disfavored industries into losers that are excluded from the banking system even if they are legal and licensed. Both situations are abuses of power and an elevation of personal/party agendas over a rules based world that avoids self-interested parties from putting their thumb on the scale. The resulting weaponization of the financial system destroys the rules based live and let live level playing field that sits at the core of this country's economic and social foundation.

Without an independent central bank, politicians have always prioritized turning on the money printing machine of politically motivated low interest rates to prime the pump of growth, leading to inflation or hyper-inflation. Turning the U.S. into a banana republic of money printing is bad enough if you are a minor country that is willing to torch its own future, but doing this to the U.S. dollar is a monumental self-immolation of the world's dollar based financial order. Yes it is true that having an independent Federal Reserve set monetary policy independent of the whims of politicians does create a power outside of the political process of the U.S. government — but that's exactly what makes the US dollar currency trusted domestically and internationally. Simply kissing that off as one presidential contender has mooted torches our major advantage over every other country/currency in the world.

If thinking about destroying the dollar isn't bad enough, we have another camp of power in the regulatory realm that feels comfortable using Tony Soprano tactics to shame the banking system out of servicing disfavored industries. Under the shield of the innocuous words "safety and soundness," whole disfavored but legal industries are put to the sword by being forced to scramble to acquire and retain basic bank accounts and the corresponding ability to do business in the country. No meaningful entity can effectively do business without such access, so making such access hard or impossible to garner is effectively death penalty territory for the disfavored. Operation Chokepoint shames banks and other regulated entities from servicing the consensual vices (drugs, sex, gambling) and other disfavored industries (gun makers, fracking companies, payday lenders, money transmitters, crypto, etc.) from being competitively banked — if they can get banked at all. It is one thing to recognize these industries as high risk and thereby requiring additional controls, but quite another to question whether serving them at all is fundamentally "unsafe and unsound" regardless of controls to meet assessed risk levels.

To effectuate Operation Chokepoint across the financial industry, it is not needed to censor every bank in the country. Killing off just a few through consent decree's and forced liquidations sends the death on demand message through to all the rest to fall into line of face asphyxiation if not outright seizure and shut down. Like extrajudicial killings, these amount to a lynching culture where licensed financial service operators self-censor the disfavored industry customers out of their customer base rather than open themselves up to criticism from the powers that be.

Such shadow shaming and execution is difficult to fight since there's little in a way of a paper trail that show's exactly where a regulator has been so prescriptive as to cause customers to be debanked. The punishment for not going along with the advice it to find oneself operating under a consent decree where the growth and innovation of the bank is completely removed from the targeted financial institutions, leaving them in need of asking permission over every detailed aspect of their business. It is a form of nationalization that turns the operators of targeted financial institutions that dare attempt to manage their own institution into little more than sharecroppers in their own business.

The author here argues for a recognition that the independence of the central bank and principles of "fair access" to banking for all legal and licensed businesses should be sacrosanct rather than undermined. Weaponization of our financial foundations is short sighted political gamesmanship at the expense of the long term viability. Please make it stop.