

What Is the Federal Reserve Up To?

by Paul Gallagher

Nov. 3—When Federal Reserve chair Jerome Powell gave his press conference Nov. 2, the Fed having just raised its Federal funds target rate by 0.75% to the range of 3.75-4%, he blew away the supposedly “crucial” question of whether the Fed would match that increase again in December, or would make the much-desired “pivot” to a mere 0.5% increase to end the year. This obsession of those who live and die by the stock market was swept away, when Powell said, in effect, that the Federal Open Market Committee was planning to keep raising rates steadily into 2023, with no “pause” yet in sight.

What’s being accomplished by this? Certainly not the control of inflation. The Federal Reserve governors have plenty of data, and they know full well that the costs of all forms of *credit* continue to run away. Credit cards bear an all-time record average interest rate of 24%. The average auto loan for a new car, according to Edmunds.com, is now up to 6.3%, on an average price of \$40,438 (that’s a \$1,000/month payment); the average used car loan has an interest rate of 10.33%.

The average 30-year fixed mortgage bore a rate of 7.13% at the end of October compared to 3% in the early Spring, dealing a knockout punch to the real estate market. While *none* of these costs are counted as “inflation” in the Consumer Price Index, the great majority of Americans continue to suffer loss of real income from them. Business lending for smaller and medium-sized companies, much of it tied to the 2-year Treasury note rate which has more than doubled, have gotten far more expensive, and capital spending has suffered, along with labor productivity which is at rock bottom.

So no, the Fed is not “controlling” services inflation by raising rates this way, but the opposite.

What, then, goods inflation? Here there is chaos. Producer goods and factory goods are still inflating rapidly; energy product prices are either dropping dramatically due to austerity (declining use) and lack of refining capacity (natural gas, gasoline) or spiking up-

wards due to shortages (diesel fuel). Food products are still inflating strongly, except that grocery chains are marking them sharply down because they know their customers are broke from inflation! Walmart is offering “everything for Thanksgiving at last year’s prices,” for example.

So, runaway inflation combined with simultaneous deflation. *EIR* forecast it a couple of months ago.

The one thing the Federal Reserve is doing quite effectively by steadily and rapidly raising rates, is seldom talked about in media commentary: Currency warfare against nearly all currencies, developing sector nations’ currencies with most devastating effect; and one foreign currency in particular—China’s renminbi. The economic war now being openly waged by the Biden Administration against China’s advanced technology capabilities, begs the question of the Federal Reserve waging currency war against the renminbi, or yuan. At the same time as the yuan has risen quickly to 7% of all exchange transactions worldwide and is about to supplant the British pound as the fourth-most widely used currency, the “strong dollar” has driven it down from 6.3 to near 7.3 to the dollar.

The target of this currency warfare is the possibility of a new multinational trading system emerging—and a credit system of multinational banks for project lending at low rates—with the renminbi in a reserve currency role. This would be the one beneficial miracle which could arise out of the terrible NATO vs. Russia war, the use of the dollar as a weapon to seize nations’ assets, and the sanctions beat-down of economic activity across Eurasia. A stronger yuan increases China’s capacity to contribute credit for project investments to such a new system; a weaker yuan reduces it, and raises the need for tighter capital controls to prevent capital flight into speculative investments.

Jerome Powell’s announcement Nov. 1 that the Fed would go “higher for longer,” as Wall Street calls it, promised a continued U.S. Treasury and Federal Reserve war against that potential.

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