

The corporate media promotes the myth that the US Federal Reserve (hereafter noted as "the Fed") 'fights' inflation by increasing interest rates. The importance of this staged intervention is far less than the problems which it creates. It's past time to put this fiction of the "wizards" of Oz to rest. All of these definitions are based upon a centrally controlled banking system. In most cases these terms are only useful on a sector and regional basis. The basic definition of money is that it is a legal institution to facilitate exchanges. Contrary to mis-formation, money is not a fixed commodity.

Let's start by defining inflation as a persistent increase in the level of consumer prices OR as a persistent decline in the purchasing power of money. But, are they both the same process and do they have the same causes ?

**Demand-Pull Inflation** - is defined as "too much money chasing too few goods (and services)." In other words, if demand is growing faster than supply, then prices will increase. This usually occurs in growing economies. It also has happened as a result of trade surpluses moving into real estate related speculation (a.k.a. inflation) to preserve the value of that surplus money.

**Cost-Push Inflation** - When the costs to companies go up, they need to increase prices to maintain their profit margins. Increased costs can include wages, taxes, tariffs on imports, raw materials, and of course interest rates on borrowed money. This is sometimes also described as a cause of deflation based on the reduced value of the major currency relative to the basic costs of living.

By analogy deflation would be a persistent decrease in the cost of goods and/or services, or "too little money chasing too many goods. This can happen in specific types of markets or when there is an over capacity of production. In effect it

is a general goal for investors to have scarcity to keep costs rising, while at the same time increasing the general production capacity. On another side, the deflation of labor costs seems to be a desirable condition for investors though not for labor as consumers. Deflation can also be the result of currency or credit scarcity.

Deflation of stock prices or the collapse of hedge funds are generally considered to be bad. Speculation in general is an inflationary process. Deflation of wages can be also be enforced by the out sourcing of productive jobs and also by the rapid influx of immigrants willing to compete for wage jobs, at substantially lower prices. Rapid advances of technology can also act to lower prices of various goods in a competitive market.

Banks favor a constant low inflation process which acts to reduce the value of savings by ordinary people. The use of pension funds in speculation is by its nature a dangerous practice, though it is an alternative to artificially low interest rates on savings. Does each type of inflation require a different monetary approach in response, and, how does the Fed know which type of inflation the economy is suffering from?

There's no indication that the Fed distinguishes at all between the two general causes of inflation. In fact, it appears that regardless of its cause, the Fed has a 'one size fits all' method of dealing with inflation that comes in just two flavors: open market operations and the Fed discount rate. As the aggregate level of debt by various loans and debt instruments such as mortgages accumulate in the economy, the underlying cause of inflation becomes increasingly important with respect to the effect the Fed's response has on the economy.

Through open market operations, the Fed increases or decreases bank reserves by buying or selling securities, respectively. The Fed buys

securities, such as bonds, when it wants to increase the flow of money and credit, and sells securities when it wants to reduce the flow.

When the Fed decides that too much money is moving through the economy and prices are rising too quickly (inflation), they start selling securities. This reduces the amount of reserves available to banks, causing interest rates to rise, and banks will not make as many loans because it costs more to borrow. Agriculture is a major example of distinct credit needs, that requires seasonal adjustments.

The Fed can also increase or decrease the discount rate, setting the interest rate that a regional Reserve Bank charges banks when they borrow funds on a short-term basis.

Changes in the discount rate can affect: lending rates by making it either more or less expensive for banks to get money to lend or hold in reserve. This affects open market interest rates in the economy, because of its "announcement effect."

Let's ignore, for now, the two grand frauds of the Fed as a private banking cartel. First, that it allows member banks to create their own money from thin air, and then lend it out at interest. And second, that the same banking cartel poses as a public interest institution. They purely represent the interests of their own investors, and the rest of the show is mis-direction and political spin. In placing this cartel into a global context alongside other private national banking cartels, the process can easily get very confused and very out of control, sometimes even intentionally.

By increasing the supply of money and credit beyond the level of productive needs in the economy, the Fed (and its affiliate banks) cause demand-pull inflation. In fact, the only other possible cause of demand-pull inflation is a decline in productivity, which the Fed and its allies bring about by contracting the money supply, making it more difficult to conduct business and to be

productive.

When we examine cost-push inflation and ask how does the Fed know when to act the problems increase. Basically, the Fed monitors consumer PRICES and the COSTS of doing business, focusing mainly on the cost of LABOR. As already demonstrated, the inflated prices that you and I perpetually suffer from are different from the prices that the Fed relies upon to guide its monetary policy. While they worry about "core" inflation, we suffer from REAL inflation measured by an index of prices that include volatile goods (food and energy).

Why are they volatile? Because we need these products, so suppliers extort whatever price the market will bear. Why does the Fed ignore volatile prices, and act only on changes in core, or elastic prices? There's NO risk that the price of necessary goods would deflate below the desired price by corporate processors and suppliers. Control over food and energy sectors is so concentrated that suppliers simply dictate prices, consumers either pay or do without the product.

According to the Fed: Labor accounts for roughly two-thirds of all business costs. The exact proportion varies according to the capital versus the labor, maintenance, administrative and other costs of the goods and services we buy. For example, garbage collection is very labor intensive, and public housing is not. So, even with the US economy is now being primarily a service economy (labor intensive), it is also an economy that is deeply in DEBT which may dramatically affect the ratio of capital to labor costs. Our economy is also now largely based upon debt based money, including loans, mortgages, and similar processes. Without this type of money there would be far less money in circulation causing massive economic collapse. A transition to

asset based money would be necessary.

Estimates of fluctuations in labor costs are frequently interpreted as actually causing inflation. First, labor cost indicators are also consistent with increased productivity. Companies generally don't hire more non-management people unless they are to be productive. Lower unemployment and increased wages may indicate a 'tightened labor market,' but they are still not inconsistent with productivity. What possible reason does the Fed have to stifle productivity, except to maintain control of the economy and to keep their profits of their monetary franchise high.

So, to sum it up, the Fed and member banks cause demand-pull inflation, after which they badly worsen cost-push inflation by raising interest rates in our already debt-ridden economy. The TRUTH is that the Fed does NOT, and CANNOT 'fight' inflation by increasing interest rates. If anything, the Fed fights deflation of wealth and constricts productivity, to the benefit of banks and their offspring corporations, and to the harm of American workers and consumers. Instead this is a process of class warfare in slow motion. The economics of communities are simply ignored. The wealth building potential of currency circulating within communities is also ignored in favor of a centralized banking system.

The primary promise in justifying first the establishment of the US Federal Reserve, a privately owned and controlled corporation and its continued existence was that it would as a central banking institution be able to end economic cycling of inflation, deflation, recessions, and depressions. It is fairly clear after nearly 100 years that its control has had little positive influence and actually a great deal of problems for everyone except the bank industries and their connected corporations.

# The Hocus Pocus Monetary Policies of the US Federal Reserve

## Re-Imagining Economics