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Federal Reserve's Rate Increases: Too Little Too Late?

The Federal Reserve's recent 0.75 percent increase in its "benchmark" interest rate is the Fed's highest rate increase since 1994. This increase is a sign that the Fed has finally realized that price inflation is more persistent and widespread than the Fed initially believed.

Stocks have fallen much lately. This is in part because of fears rate hikes will push the economy into recession. The Fed itself seems to believe that the economy is going to slow down in the near future, as it has reduced its projection of 2.2 percent economic growth in 2022 to 1.7 percent. Even more ominously, the Atlanta Fed's GDP tracker fell to zero for the second quarter of 2022, due in part to May's weak retail sales.



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The Fed claims it will reduce inflation without significantly increasing unemployment or causing a recession. This is likely to be as accurate as the Fed's prediction that inflation was "transitory."

This latest rate increase will only raise rates to where they were before the lockdowns led the Fed to embark on a historic money-creating spree. The Federal Reserve cannot increase rates to anywhere near the level they would be in a free market because doing so would increase interest payments to unsustainable levels for debt-ridden consumers, businesses, and the federal government.

Increases of a couple percent or less in interest rates can cause big increases in federal debt payments. The resulting new spending puts pressure on the supposedly "independent" Fed to maintain low rates, making it more likely the Fed will fail to tame inflation but succeed in resurrecting stagflation, combining price inflation with a recession. This new stagflation will make the 1970s look like a golden era.

Despite the skyrocketing debt and the Fed's role in creating inflation, there are few in Washington committed to spending cuts. Congress is currently getting ready to authorize an across-the-board spending increase for next year. Meanwhile, the US government is spending tens of billions of dollars this year related to Ukraine, and the Biden administration is still pushing for massive new domestic programs.

The return of stagflation will increase the growing movement to replace the dollar as the world reserve currency. This will be the final nail in the welfare-warfare-fiat money regime's coffin. History shows that such a crisis usually results in people embracing some form of authoritarianism. However, if those of us who know the truth are effective in spreading the ideas of liberty, this crisis can result in a turning to the principles of minimal government and maximum liberty.

Ron Paul is a former U.S. congressman from Texas. This article originally appeared at the Ron Paul Institute for Peace and Prosperity and is reprinted here with permission.



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