Written by **Bob Adelmann** on December 8, 2018

Stocks Lose Four Percent Last Week, Thanks to the Fed

Wall Street's selloff last week has been blamed on everything but the real thing. The major indices lost more than four percent, with the Dow off nearly 10 percent since its recent high in early October.

Pundits have been peering into every corner for the culprit(s) to blame for the ferocious decline: shrinking housing and auto sales, rising credit card debt delinquency rates, higher oil and gas prices, slowing of job growth and capital investment, the accusations leveled at Chinese companies trying to break into technology service providers here in the United States, the appearance of "yield curve inversions," and so forth.

The appearance of so-called death crosses (the 50-day moving average falling below its 200-day moving average) in the major averages have no doubt triggered more volatility. Algorithms have driven trading by computers (program and high-frequency trading) to up to half of all stock trades on the New York Stock Exchange. This leaves money managers and individual investors behind, forcing them to the sidelines to wait for calmer times.

Who is the real culprit behind this volatility in stocks? *The New American* has been nearly alone in pointing to the actions of the Federal Reserve (see Related Articles below) as the prime driver, focusing on its determination to slow the economy by raising interest rates. For example, we quoted the insider bank Goldman Sachs in late November: "The FOMC [the Fed's Federal Open Market Committee] will likely be reluctant to stop [raising interest rates] until it is confident that the unemployment rate is no longer on a downward trajectory." At the time, we said, "The Fed is determined … to keep raising rates until the economy is so weak that unemployment starts to increase!"

There's more to that story. Since September 2014, the Federal Reserve has been intentionally and deliberately shrinking the money supply — the capital that a capitalist system needs to thrive and prosper — from $4.15 trillion to $3.5 trillion as of November 21, 2018. That's a 15-percent shrinkage in the "oxygen supply" the capitalist system needs. But it's worse than that: Most of that shrinkage has taken place since last September. Since then the Fed has reduced the money supply (its "Adjusted Monetary Base" numbers are available from the St. Louis Fed's website) from $4.0 trillion to $3.5 trillion, a reduction of 12.5 percent.

That money-supply shrinkage is now showing up in the various places pundits are looking to place the blame, i.e., anything that affects the financial well-being of the economy. As interest rates rise and the money supply shrinks (the two most powerful tools the Fed is using to slow the economy), housing starts slow, car sales dwindle, credit card payments increase, profit margins decline, and capital expenditure projects are taken off the board as they are no longer profitable enough to be justified.

Add to this the toxic mix of mixed messaging from the White House over the China trade talks, the incipient arrival of the Mueller investigation's findings into Trump's alleged misdoings, the threats being ramped up against the president by the Democrats salivating over their power to investigate when they take control of the House in January, and one wonders that Wall Street has any buyers left at all.

What about the economy? Does the "yield curve inversion" signal a recession in the next six months or so? Not according to Joseph Haubrich, an economist and a consultant for the Federal Reserve Bank of Cleveland. In April 2006, Haubrich was tasked with answering the question, "Does the Yield Curve Signal Recession?" His answer:

> Evidence since the early 1990s suggest that the relationship between the yield curve and [future economic] growth has shifted, if not disappeared….
>
> Speculating on whether or not the yield curve is truly predicting a recession remains exactly that: speculation.

Evidence continues to pour in over the health and strength of the U.S. economy. The Institute for Supply Management's latest reports from both the manufacturing and service sectors of the U.S. economy confirms that health and strength. The latest jobs report, coming in below expectations for the first time, shows remarkable strength considering the shrinking pool of capable and skilled workers so desperately needed in the increasingly technology-driven U.S. economy. Oil and gas prices will continue to trend lower worldwide thanks increasingly to U.S. production records being set almost on a daily basis, which are making the United States the world's largest producer of crude and refined products.

It's the Fed that stands athwart the economy's startling growth trajectory.

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