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“Welcome to More Misery”

The Federal Reserve Board’s (FED’s) move this week to raise interest rates to slow inflation along with Russia’s war with Ukraine and its attendant sanctions and economic disruptions dovetail to, in all likelihood, slow the US economy or generate a downturn. We should ask: Why?

Keep in mind that US oligarchs, plutocrats, leaders of large corporations, and government officials have access to mountains of information (data) and extraordinary computing power, which can be leveraged to model and plan economic outcomes. They may feign ignorance about their predictive power, but rest assured that they have considerable certainty concerning results before they act.

A key set of tangential questions to ask are: (1) Is Russia the arch enemy of the US and Europe and is pacifying Russia the key to global economic and physical security? (2) Was former President Trump able to pacify President Putin and keep Russia restrained within its borders? and (3) What did President Trump know that President Biden does not know about restraining Putin and Russia?

The logical answer to the last question is probably “nothing.” So, why the war now? The answer: “It’s the global economy stupid.” More specifically, the economic concern among governments around the world today is that they borrowed and spent heavily during the 2008/9 Great Recession and the Covid-19 pandemic. Consequently, they have a huge debt pile that they cannot service at high interest rates. The problem is that inflation is rising everywhere and the standard method for slowing inflation is to raise interest rates.

In the US case, today’s Federal Government debt stands at over USD 30 trillion—130 percent of US GDP. During 2020, the Federal Government experienced net interest payments of USD 510.7 billion. This is with interest rates at very low levels. It is estimated that a 1.0 percent rise in interest rates would cause debt service to rise by nearly USD 200 billion.[1]

In other words, the US Government cannot afford to see interest rates rise substantially. If they do, then funds that would be directed toward government goods, services, and transfers would have to be redirected toward

[1] It is true that the USD 510.7 billion in 2020 net interest payments was only about 2.5 percent of US gross domestic product (GDP). However, a more troubling aspect of US Government debt is the 130 percent debt-to-GDP ratio. Some economists point to Japan as an example of a nation with an even higher debt-to-GDP ratio (over 200 percent), but Japanese citizens own about 90 percent of their nation’s debt. That is certainly not the case for the US.

debt service. Alternatively, the government would have to borrow more.

To avoid this outcome, interest rates must be kept low at all costs. To achieve this outcome, last year, the FED set the stage for what was to come by agreeing to revised policy guidance; i.e., to permit a higher level of inflation during its conduct of monetary policy.

The FED has begun to raise interest rates to slow inflation. However, we believe that before the FED can venture too far down this path, the economy will slow due to the Russia-Ukraine war and related economic disruptions (including the reverberations of sanctions and exacerbated supply chain issues). So, the FED will halt its interest-rate-raising action. However, infla- tion will not return to the level (target) formerly deemed acceptable by the FED (2.0 percent).

Note that this failure to reduce interest rates to the former FED target is also favorable for addressing US Government debt. Higher levels of permissible inflation mean that the debt can be amortized with cheaper, that is inflated, dollars. This is the so-called inflating away of the debt—at our expense.

Because other nations are in the same boat as the US, they will follow the script. It is unfortunate that Ukraine had to be the collateral damage. But there had to be an explanation for a slowing of the global economy so that global interest rates could remain suppressed at low levels. Besides, when the war is over, the world's nations will chip in to rebuild Ukraine (if it remains independent of Russia). This will create lots of economic opportunities.[2]

But for most Black and poor Americans, these are unfavorable outcomes. The economic slowdown or downturn will cause unemployment to rise, while inflation will remain elevated—so-called stagflation. The "Misery Index" will rise. Accordingly, household debt will increase and/or asset holdings will decline. These outcomes are not preferred in our push to achieve economic equality.

The sad fact is that, in this post-modern era, few governments ever amortize their debt substantially—they keep increasing it. Consequently, we can expect more and more of the same as governments do all that is within their power to keep interest rates low so that they can remain solvent, pacify the populous by providing the goods and services that we have come to expect, and prevent a loss of confidence in the global financial system.

The disheartening reality is that individuals and households cannot operate as governments, and the former will continue suffering through economic booms and busts that are engineered by governments at our expense. Unfortunately, oligarchs, pluto-crats, leaders of large corporations, and government officials will maintain their positions and lifestyles, while the rest of us endure economic malaise.

Welcome to more misery.

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[2] In this context, an even better economic outcome for the world's nations would be that Ukraine is brought under the Russian umbrella. In that case, the rebuilding of Ukraine would likely be left to Russia.