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# *The Law of Unintended Consequences*

The Federal Reserve has announced its intention to raise interest rates significantly. There are those who claim that interest rates have been too low for many years, and that even with an increase in interest rates of 1 or 2 percent, they still will be below historic norms.

The Federal Reserve has become more politicized in the last several administrations, and has sought to keep interest rates low in order to provide a permanent stimulation to the economy. The Federal Reserve has even been involved in making sure that the government purchased some of its own extraordinary debt. The reason for this is to assure that foreign lenders to the United States do not exercise the leverage to demand higher interest rates.

The calculus is easy to understand: When the United States is spending more money than it receives, somebody has to lend money to the United States. In the current scenario, those lenders are China and other nations that depend upon the stability of this country. They are fine with receiving low interest rates, because it is coming from the world's most durable power. However, they also have a handful of aces by being America's financiers.

With talk of increasing interest rates, the question is whether that hike will cure inflation. Americans today are shocked by how, in the last year, the cost of everything has gone sky high. The Administration blames inflation on vague notions of "supply line issues" and slow production of products from abroad.

There is no question that the way COVID has been addressed around the world has interrupted supply lines. Of course, unbalanced trade deals made by both Republican and Democrat administrations have resulted in a great quantity of our products being made abroad. Therefore, when a disease, war, or some other disruption arises, it should be no surprise that supply lines will be affected, thus raising prices.

When George Bush and Bill Clinton campaigned for passage of trade deals, they admitted that the trade agreements would need to be "tweaked" because they were not entirely fair to America. Not surprisingly, those tweaks never occurred.

Interest rates are being increased by the Federal Reserve in order to make borrowing by individuals and businesses more expensive. In normal times when businesses and citizens have less money to spend, the economy slows down and therefore prices are less likely to increase. However, these are not normal times.

The real question is whether the current inflationary spiral is due to high consumer and corporate demand, increasing wages, or some other factor?

Part of the answer to that question can be understood by a trip to the King of Prussia Mall outside of Philadelphia. The most expensive stores have lines of people spending money that they received as stimulus from the government. These are not the sort of folks usually buying Rolex watches and Gucci handbags.

The Federal Reserve and the economic directors of our country must ask themselves to what extent is the current unacceptable inflationary cycle caused by too much money pumped into the economy by the government? The panic pump-priming started in the Trump Administration has been exacerbated by the Biden Administration. Printing money has resulted in vastly increased debt, the need for the United States of America to borrow, and has caused many Americans to be awash in funds which they are anxious to spend.

Our policymakers must acknowledge that inflation is spurred not merely by supply line disruptions, but by the trillions of dollars that have been printed by the government, creating unacceptable debt, and fueling enormous spending.

The law of unintended consequences is occurring before our eyes. Giving citizens money, not for specific needs but simply to juice the economy, has had the unintended consequence of enhancing the temptation of sellers to raise prices.

In order to bring down inflation, the Administration should be encouraging U.S. production of goods. That makes delivery easier, and cuts down on present and potentially future supply line problems. That is a mid- to long-term solution, but it is never too late to start.

Our government must encourage more efficient production, expending less funds on low-paid workers who are difficult to find. The tendency we have to utilize immigrant labor is one of the reasons why both big business and left-wing democrats are unwilling to seal our borders.

The government must also make the painful decision to cut down or eliminate tax credits, deductions, and other tax give-aways which also have the effect of placing a great deal of money in the hands of business and consumers, while adding to the national debt.

Raising interest rates dramatically is likely to have the opposite effect than is intended. It will make goods and services more expensive to the consumer and business, and will serve as a catapult to inflation. At some point interest rates can become so high that the economy will be stalled altogether. The Fed certainly does not want that to happen.

Those who are running our government do not have a consolidated, thought-out approach to addressing economic dislocation. On the one hand, policymakers want to put more money in the hands of citizens, including corporations, but by the same token they are rightly concerned about the deleterious effect of inflation. If we want to tame the inflationary monster, then we cannot be pumping huge amounts of money into our country by extraordinarily generous spending programs and liberal tax policy.

Well-established economists, honest with government and leadership, are difficult to come by. Most of them are university affiliated and, when they enter government service, they become instruments of those who seek incumbency in office rather than stable social and economic policies for the country. Without a coordinated, understandable relationship between government largess and tax policy, inflation is likely to upend most of the economic gains that Americans have enjoyed in the last generation.

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