# Why is the FED Considering an Interest Rate Hike When it is Still Printing Money?

February 14, 2022 - It is a little odd to think about but there is now an entire generation of adult consumers who have never seen long term interest rates much above zero. In all likelihood, that's going to change over the next few months. Reports in the Wall Street Journal, the Financial Times and other business publications last week indicate that the FED will go through a series of seven rate hikes of a quarter-percent starting sometime in the next 30 days. The reason for this is to help control inflation.

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Once the rate hikes begin, it will become more expensive for everyone to borrow money. Most credit cards now have adjustable rates, so anything you charge on them will cost you more money unless you pay them off in full every month.

Home loans, auto loans, business loans, etc... will all become more expensive. And because they will be more expensive, borrowers will find that banks may still approve their credit applications but for less money than they would have qualified for when interest rates were lower. This change is likely to be significant for many major purchases such as buying a home. If you qualified for a $500,000 loan with the lower rates, that amount may drop significantly with a higher interest rate.

That's not necessarily bad for buyers though. Anyone selling a home will be faced with a little different scenario. With the higher interest rates, all of a sudden they won't have as many qualified buyers looking at their home. And with that reduced demand, normally you see a reduction in price. So even with the higher interest rate, buyers may still be able to purchase the same home they would have gotten into at the lower rate. But that reduced purchase price does come directly out of the seller's pocket.

The idea behind increasing interest rates is to get the economy to cool down. By increasing borrowing costs, they decrease demand and that reduces prices (i.e. - inflation). At least that's the theory, but in this case, there is one big caveat. At the same time the FED is doing this, they are continuing to print more money. So they are increasing consumer costs and costs to taxpayers, but they continue to pump more money into the economy and allow the federal government to spend without any restraints at all. From an economics standpoint, this is just stupid. From a consumer and taxpayer standpoint, it really should be criminal.

What the FED appears to be doing here is the equivalent of placing a huge tax hike on Americans without any vote in congress. If they really wanted to control inflation, they would first stop all purchases of Treasury Bonds - which his how

they print money. This would force the federal government to reign in its spending relatively quickly, or to pass a tax hike to pay for continued spending. Congress and the White House wouldn't be happy about either of these options, but that's the legal way to do it.

Instead, the FED is running cover for Congress and the administration. They are going to pass the cost of an out-of-control government spending spree on the backs of taxpayers and consumers, and hope we don't notice they are doing nothing to negatively impact government spending. Well, we've noticed. The question is, what do we do about it. Unfortunately, we don't have an answer for that right now but we think its important for you to be aware of what's actually going on. At the very least, that might get a conversation started. A conversation about auditing the FED perhaps?
by Jim Malmberg
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