The Federal Reserve Continues to Pull the Wool Over Everyone’s Eyes

By Paul Craig Roberts • May, 2024

The New York Federal Reserve bank reports that US household debt has hit a new record. Americans are increasingly using credit card debt at high interest rates to pay for their living expenses. Delinquencies are rising. About 17% of Americans are using 90% or more of their credit card limit and an additional 11% are using 60-90% of their credit card limit. That means 28% of American households are heavily indebted at high interest rates that prevent their ability to pay down the debt. Many struggle to make minimum payments, which means their debt increases monthly from interest alone without new borrowing.

The 20% plus credit card interest rates go far beyond usury. It makes one wonder how a consumer economy can survive when so much of personal income is drained off in debt service. How can consumers be causing inflation when they have no discretionary income to spend? What is the point of the Fed restraining the economy to combat inflation when the economy is already tightly constrained by debt service?

Is the Fed really this mindless? Let’s examine this question further.

Last Tuesday Michael Barr, a Federal Reserve vice chairman told a House committee that delinquency rates are rising among commercial real estate loans backed by office buildings, auto loans, and consumer loans. He reported that commercial real estate delinquencies are at a 5-year high and that credit card and auto loan delinquencies are rising. The Federal Reserve is proposing increases in capital requirements for banks so that they can meet the stress of rising delinquencies.

Mr. Barr does not say where the banks will get the funds with which to increase their reserves when the banks are in a position in which they must continue lending to over-indebted persons and businesses in order to avoid defaults, and when the banks’ balance sheets are loaded up with low-paying assets acquired during the Fed’s many years of zero interest rates. The banks’ own balance sheets might be no better than the balance sheets of their delinquent borrowers.

What is not being said is that the Fed’s many years of zero interest rates produced a bubble in real estate and financial asset values that the Fed’s high interest rate policy is now pricking. The Fed’s policy is nonsensical, because the inflation is not a consumer-driven inflation but is caused by the Covid lockdowns that destroyed businesses and disrupted supply chains and by US sanctions that have backfired on the West, adding to the disruption of business and driving up costs. The Fed’s high interest rate policy is driving us into another financial crisis. As I explained in my four part series, “The Great Dispossession,” it is our personal financial

assets that regulators have designed as collateral with which to bail out financial institutions.

In other words, this time around, it is our bank balances, stock and bond holdings, and retirement funds that are at risk. They are designated as the collateral for secured creditors of failed financial institutions.

If you did not read my four part series or take it seriously, you are advised to read it now. There is nothing you can do about it, but there is some advantage in not being blind-sided.

The Fed Is the Great Deceiver

Is the Fed "tapering"? Did the Fed really cut its bond purchases during the three month period November 2013 through January 2014? Apparently not if foreign holders of Treasuries are unloading them.

From November 2013 through January 2014 Belgium with a GDP of $480 billion purchased $141.2 billion of US Treasury bonds. Somehow Belgium came up with enough money to allocate during a 3-month period 29 percent of its annual GDP to the purchase of US Treasury bonds.

Certainly Belgium did not have a budget surplus of $141.2 billion. Was Belgium running a trade surplus during a 3-month period equal to 29 percent of Belgium GDP?

No, Belgium's trade and current accounts are in deficit.

Did Belgium's central bank print $141.2 billion worth of euros in order to make the purchase?

No, Belgium is a member of the euro system, and its central bank cannot increase the money supply.

So where did the $141.2 billion come from?

There is only one source. The money came from the US Federal Reserve, and the purchase was laundered through Belgium in order to hide the fact that actual Federal Reserve bond purchases during November 2013 through January 2014 were $112 billion per month.

In other words, during those 3 months there was a sharp rise in bond purchases by the Fed. The Fed's actual bond purchases for those three months are $27 billion per month above the original $85 billion monthly purchase and $47 billion above the official $65 billion monthly purchase at

that time. (In March 2014, official QE was tapered to $55 billion per month and to $45 billion for May.)

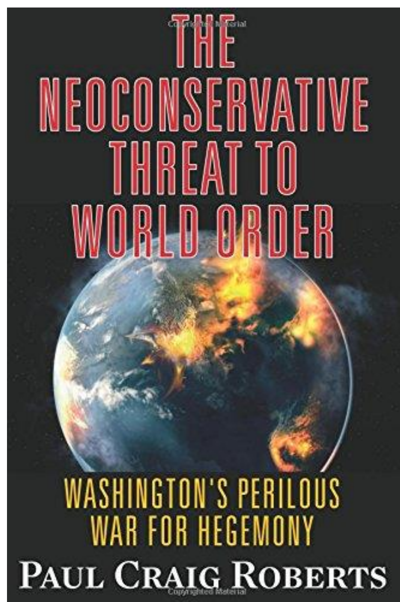
Why did the Federal Reserve have to purchase so many bonds above the announced amounts and why did the Fed have to launder and hide the purchase?

Some country or countries, unknown at this time, for reasons we do not know dumped $104 billion in Treasuries in one week.

Another curious aspect of the sale and purchase laundered through Belgium is that the sale was not executed and cleared via the Fed's own National Book-Entry System (NBES), which was designed to facilitate the sale and ownership transfer of securities for Fed custodial customers. Instead, The foreign owner(s) of the Treasuries removed them from the Federal Reserve's custodial holdings and sold them through the Euroclear securities clearing system, which is based in Brussels, Belgium.

We do not know why or who. We know that there was a withdrawal, a sale, a drop in the Federal Reserve's "Securities held in Custody for Foreign Official and International Accounts," an inexplicable rise in Belgium's holdings, and then the bonds reappear in the Federal Reserve's custodial accounts.

What are the reasons for this deception by the Federal Reserve?



The Fed realized that its policy of Quantitative Easing initiated in order to support the balance sheets of "banks too big to fail" and to lower the Treasury's borrowing cost was putting pressure on the US dollar's value. Tapering was a way of reassuring holders of dollars and dollar-denominated financial instruments that the Fed was going to reduce and eventually end the printing of new dollars with which to support financial

markets.The image of foreign governments bailing out of Treasuries could unsettle the markets that the Fed was attempting to sooth by tapering.

A hundred billion dollar sale of US Treasuries is a big sale. If the seller was a big holder of Treasuries, the sale could signal the bond market that a big holder might be selling Treasuries in large chunks. The Fed would want to keep the fact and identity of such a seller secret in order to avoid a stampede out of Treasuries. Such a stampede would raise interest rates, collapse US financial markets, and raise the cost of financing the US debt. To avoid the rise in interest rates, the Fed would have to accept the risk to the dollar of purchasing all the bonds. This would be a no-win situation for the Fed, because a large increase in QE would unsettle the market for US dollars.

Washington's power ultimately rests on the dollar as world reserve currency. This privilege, attained at Bretton Woods following World War 2, allows the US to pay its bills by issuing debt. The world currency role also gives the US the power to cut countries out of the international payments system and to impose sanctions.

As impelled as the Fed is to protect the large banks that sit on the board of directors of the NY Fed, the Fed has to protect the dollar. That the Fed believed that it could not buy the bonds outright but needed to disguise its purchase by laundering it through Belgium suggests that the Fed is concerned that the world is losing confidence in the dollar.

If the world loses confidence in the dollar, the cost of living in the US would rise sharply as the dollar drops in value. Economic hardship and poverty would worsen. Political instability would rise.

If the dollar lost substantial value, the dollar would lose its reserve currency status. Washington would not be able to issue new debt or new dollars in order to pay its bills.

Its wars and hundreds of overseas military bases could not be financed.

The withdrawal from unsustainable empire would begin. The rest of the world would see this as the silver lining in the collapse of the international monetary system brought on by the hubris and arrogance of Washington.