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Fed, National Banks Decide on More Global Inflation

The swap rate is the interest rate the Federal Reserve charges foreign central banks to borrow dollars from the Fed. A lower interest rate makes it easier for European and Japanese central banks to go further into debt.

"The purpose of these actions is to ease strains in financial markets and thereby mitigate the effects of such strains on the supply of credit to households and businesses and so help foster economic activity," the Federal Reserve claimed. In plain English, that means the central banks' answer to the European debt crisis is to make it much easier to borrow more money and get deeper into debt. That's a bit like a bunch of doctors agreeing that the solution to the pain in a patient's eye is to push the ice pick further into his eye.

The European Central Bank and the national central banks of Canada, Switzerland, Japan, and the U.K. also lowered their swap rates. This will have the effect of burgeoning the money supply, meaning existing money will purchase less and less goods for an equal price — inflation.

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The Federal Reserve Bank regulates a number of interest rates, all of which are already at or near historical lows. The Federal Funds Rate, the rate at which member banks of the Federal Reserve borrow from each other through the Federal Reserve, is near zero at 0.08 percent. The Federal Reserve Discount Rate, the rate member banks can borrow emergency funds directly from the Federal Reserve or its 12 branches, is 0.75 percent. The "temporary U.S. dollar liquidity swap arrangements" rate is the Federal Funds rate plus the 0.50 percent premium, so it will be lowered from 1.08 percent to 0.58 percent.

The new credit to Europe and Japan comes as both regions continue massively piling on government debt, and just weeks after a Greek default on its debt that ended in a deal that required private investors in Greek sovereign debt losing up to 50 percent of their investments. Despite massive losses in the bond market from the Greek debt deal, the Greeks plan to continue compiling massive government spending deficits, possibly because they are enabled to do so by European lenders. And now, these European lender/enablers will themselves be financed by the U.S. Federal Reserve Bank.

Overshadowing Greece and the upcoming Italian debt crisis, a much larger sovereign debt crisis is looming: Japan. Japan has a far larger debt than Greece's or Italy's ever were. Greek sovereign debt never got above the 170 percent of GDP level before central bankers started talking about loan forgiveness (i.e., default by another name). GDP, or Gross Domestic Product, is the total value of everything produced by a country in a calendar year. The *Wall Street Journal* noted November 30 of

Japan: "Total government debt now amounts to some 200% of annual gross domestic product, and the government relies on new borrowing for nearly 50% of yearly spending. That compares with a debt burden of 125% for Greece and 101% for Italy, two countries at the heart of the euro-zone debt crisis." United States' debt to GDP ratio is about the same as Italy's rate, a little more than 100 percent, about the same as at the end of World War Two.

Like Greece, Japan has continued to accumulate debt since its "economic miracle" ended in the 1980s. The nation has essentially garnered no net growth since 1990, a measure partially resulting from a shrinking and gentrification of the population, but mostly because of economic "stimulus" that has ballooned the debt-to-GDP ratio to 230 percent. In 1980, Japan's debt-to-GDP ratio was less than 50 percent. As the national debt burden rose, Japan's amazing economic growth rate sunk from an average of four percent annually in the 1980s (and higher in earlier decades) to near zero.

Bloomberg.com quoted Bank of Japan Governor Masaaki Shirakawa at a press conference in Tokyo November 30 about the lowering of central banks' interest rates: "This was in response to increased tension in global financial markets." "Coordinated action will give markets a sense of security." Stock funds certainly felt that security in a sudden one-day rally, but the commodities markets are likely to see a more prolonged rally because of the inflationary decision.

Yes, markets received a sense of security from the central banks' action. But it is a false sense of security before the looming debt crisis breaks.