

Crisis of US Monetary Policy: Quantitative Easing Doesn't Work

Bernanke Knew This Back in 1988

By [Washington's Blog](#)

Global Research, October 02, 2010

2 October 2010

Region: [USA](#)

Theme: [Global Economy](#)

Ed Yardley [notes](#):

Two economists, Seth B. Carpenter and Selva Demiralp, recently posted a discussion paper on the Federal Reserve Board's website, titled "Money, Reserves, and the Transmission of Monetary Policy: Does the Money Multiplier Exist?" [Here's the [link](#).]

[The study states:] "In the absence of a multiplier, open market operations, which simply change reserve balances, do not directly affect lending behavior at the aggregate level. Put differently, if the quantity of reserves is relevant for the transmission of monetary policy, a different mechanism must be found. The argument against the textbook money multiplier is not new. For example, Bernanke and Blinder (1988) and Kashyap and Stein (1995) note that the bank lending channel is not operative if banks have access to external sources of funding. The appendix illustrates these relationships with a simple model. This paper provides institutional and empirical evidence that the money multiplier and the associated narrow bank lending channel are not relevant for analyzing the United States."

Did you catch that? Bernanke knew back in 1988 that quantitative easing doesn't work. Yet, in recent years, he has been one of the biggest proponents of the notion that if all else fails to revive economic growth and avert deflation, QE will work.

Yardley is right. But he's only got half the story.

On a deeper level – as I [pointed out](#) in some detail in March – the Fed is intentionally locking up "excess bank reserves" so that they will not be loaned out into the economy. Specifically, in an ill-conceived attempt to prevent inflation, the Fed has been paying sufficient relatively high rates of interest on reserves deposited at the Fed by the big banks to encourage banks to lock up their reserves at the Fed instead of lending that money out to borrowers who need it.

So on this level, all the quantitative easing in the world won't increase lending, because the banks will just continue to stockpile their money.

(On the deepest level, banks actually create credit out of thin air. See [this](#), [this](#) and [this](#). In other words, the commonly-accepted process for money creation is false, and banks don't

need any reserves to create credit).

Indeed, multiple lines of evidence [demonstrate](#) that quantitative easing helps the biggest companies, but not the little guy or the American economy as a whole.

The original source of this article is Global Research
Copyright © [Washington's Blog](#), Global Research, 2010

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Washington's
Blog](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca

www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca