Quantitative Easing Benefits the Super Rich … And Harms The Little Guy and the American Economy

Quantitatitve Easing Is Not "Liberal" Economics

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The Fed has just announced its *fourth* round of "quantitative easing".

While the mainstream financial press pretends that quantitative easing is a "liberal" economic policy, nothing could be further from the truth.

As we've repeatedly explained, quantitative easing is a bailout for the super-rich, at the expense of the little guy. It increases inequality and fails to stimulate the economy. (And it destroys the savings of retirees.)

Indeed, Fed boss Ben Bernanke knew 24 years ago that quantitative easing *doesn't help*.

Forbes' Lawrence Hunter explains:

> The Federal Reserve … operates its own financial Laundromat for troubled, in some cases criminal banks. The Fed's loan laundry and downscale resale consignment shop first takes in the wash by purchasing non-performing, and therefore largely worthless financial assets (loans and loan-backed securities) to remove them from the books of private banks. (Another variant is for the Fed to swap the banks' bad paper at face value for federal debt instruments, which replaces the banks' non-performing assets having little, if any, resale value, with safe, interest-paying and highly marketable assets.). The Fed then launders the loans by reselling them back to the same group of banks at a fraction (10 percent or less) of the face-value price it paid the banks for them. Once the banks repurchase the spiffed up dirty loan laundry, it not only has turned a nifty 90-percent-or-more profit on the turn around, it also has a new asset it can put back into the stream of financial commerce at a price reflective of its true value.
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> The Fed is a perfect vehicle to transform bad assets into good. It is weakly overseen without an independent audit and thus is able to intermediate the transformation of bad, illiquid assets into money (and near money) and then back again into valuable financial assets, all done secretly and anonymously. Unlike the polite, don't-ask-don't-tell fiction of private hedge-fund money laundering, however, the Fed says outright, "Don't ask, because we aren't telling," even when asked again and again.
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> Immediately after the 2008 financial meltdown, the Fed laundered more than $2 trillion in worthless assets held on the balance sheets of private banks. According to a watered-down 2011 audit of the Fed by the Government Accountability Office (GAO), there have been $16 trillion in Fed bailouts to banks and corporations around the world since the financial meltdown in 2008.

> Since that report, Bloomberg has reported on an additional $9 trillion in secret, off-balance-sheet Fed transactions that the central bank refuses to discuss. Now, Ben Bernanke is ginning up assembly-line washing machines at the Fed with QE∞ to spin an opened-ended, $40-billion-monthly cleansing campaign to purchase worthless mortgage backed securities from banks at face value, which could run to an additional $1.3 trillion loan laundering accompanied by downscale resales.

Indeed, the Fed:

- Gave huge bailouts to foreign banks, including Gaddafi's Libyan bank, the Arab Banking Corp. of Bahrain, and the Banks of Bavaria, Korea and Mexico;
- Bailed out hedge funds, McDonald's and Harley-Davidson
- Threw money at "several billionaires and tens of multi-millionaires", including Christy Mack, the wife of Morgan Stanley's John Mack, billionaire businessman H. Wayne Huizenga, and Michael Dell, co-founder of Dell Computer, hedge fund manager John Paulson and private equity honcho J. Christopher Flowers

Hunter continues:

> QE∞ is no mere financial Laundromat; it is a full-service loan laundry and downscale resale facility that not only cleans the banks' balance sheets but also sterilizes the entire operation to prevent it from producing immediate price inflation. It illustrates the way the Fed's loan laundry and downscale resale facility works:
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> After the Fed buys (at face value) and resells (at pennies on the dollar) the bad mortgage-backed securities with newly minted electronic digits that it places into the banks' Federal Reserve accounts, it then sterilizes the entire operation to prevent the new money from transmitting the dread inflation virus. The Fed does so by, in effect, quarantining inside the banking system the new toxic money used to launder the dirty loans. [I've explained the mechanism for the Fed's action before.] To affect this quarantine, the Fed wields both a carrot and a stick to keep this newly minted digital money from seeping out into the economy through new loans and igniting inflation: It pays the bank interest on its Fed reserves as long as the bank keeps the funds on deposit at the Fed (the carrot); and it tightens reserve requirements by raising the amount of money the bank must keep on deposit at the Federal Reserve (the stick).

There are much better ways to stimulate the economy, but the Fed is only interested in maintaining the status quo for its owners. And see this.

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