The Fed's "Promise" of Inflation Means More Unemployment…

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Global Research, March 05, 2011
5 March 2011
Region: USA
Theme: Global Economy

The Federal Reserve tells us we need inflation to overcome the overhang created by debt and its inflationary aspects. The inflation does not create jobs – it just distorts prices upward. We are told by the head of the Fed, Mr. Bernanke, that he can end inflation when he thinks it is necessary. That is not true, because if inflation ends deflation takes command and the economy collapses. There is no finely honed instrument for turning these two opposite effects on and off; thus, inflationary instruments have to be blunt and overused. That means more often than not that inflation is over implemented. This is the opposite of the Fed's mandate of promoting price stability, full employment and in fact is used to prop up the banking system. Over the past three plus years the Fed has been attempting to assist the banks in getting rid of bad assets and these efforts may last for another fifty years. These banks hold more bad assets then they have ever held before. These problem assets are the result of excessive lending and speculation between 2003 and 2008, and low interest rates that lasted far too long. The quality and existence were recognized in the credit crisis that began in 2007. Most of these impaired assets are still on bank books, but the Bank of International Settlements, the FASB, the accounting agency and the government say it's perfectly fine to keep two sets of books. If you did that in your business you'd end up in jail, but it is perfectly fine for the financial sector and transnational banks to do so. That is what QE1 was all about – bailing out the financial sector and other elitist corporations. These bad assets, that haven't been sold to the Fed, are frozen on the balance sheets of these institutions, perhaps in perpetuity.

Fed created inflation raises the real value of assets artificially, so that these bad assets appear to be appreciating when in fact they are not. Toxic securities that are being held by banks, brokerage houses and others, that were worth $0.30 on the dollar, are now worth even less. All the inflation in the world won't change the value of these assets. It may help interim earnings, but it won't help in the long run. These policies won't work long term. The interest on debt now and in the immediate future will be greater than revenues generated. At the same time $900 billion is a nonsense figure. When all is said and done the figure will be almost double that at $1.7 billion. QE1 will provide for 14% real inflation in 2011 and QE2 will provide 25% to 30% inflation in 2012. QE3 will give us hyperinflation. Monetization will be king.

The die has been cast and it is disturbing to see Mr. Bernanke lying to Congress. What will he tell them when he has to admit he created $1.7 trillion, which has been monetized into inflation and that he still holds official interest rates at just above zero, but real rates on the 10-year T-note went to 4-1/4 then 5-1/4? The American public is going to be stunned.

Again, the Fed and the US banking system are in a box and they cannot get out. If they were to officially raise interest rates it would lead to financial collapse. If they do not want to raise rates they could curtail QE2 and as a result the economy would collapse, just like Japan did so in 1992 and they have been in depression ever since. Either choice would send unemployment to a U6 level of 37.6% matching that of 1933. Worse yet, if the Fed's commitments were marked to market you would find the Fed to be insolvent, a condition that has existed for some time. It is not surprising that the Fed and its banker owners don't want the Fed audited and investigated. Any sale of bonds by the Fed would drive bonds lower and yields higher putting downward pressure on the economy. Much of what the Fed is holding is MBS and CDO's from QE1, when they bailed out lenders and select transnational conglomerates and insurance companies.

Such actions would render the Fed officially insolvent, which in fact they are already. Just to show you how terse the situation is their capital is about $60 billion and they have about $3 trillion on the balance sheet. Now you can understand why real interest rates have to be held low. The stock and bond markets have to be held up artificially so that the Fed's balance sheet won't collapse. What many do not understand is that almost all of what is on the Fed balance sheet has been created out of thin air and monetized. Part of that hot money and credit has offset the deflationary undertow; part is exported in dollar foreign balances and the rest of the inflation pass into the economy. This is the beginning of out of control inflation and the Fed is well aware of it. They quite frankly are not concerned that people lose their life savings. They only care about saving the financial sector, which owns the Fed, the government and transnational conglomerates.

Inflation will not stimulate the economy. It will hinder it and not create jobs, which is already evident. It is all lies, smoke and mirrors and psywar.

QE1 and QE2 have spread across the world exporting part of US inflation. This inflation gets stronger daily enveloping the financial world. Food prices have gone ballistic and in countries where food makes up 75% of income the result has been the overthrow of one government after another. Even the price of your clothes is going to triple. The cause of these problems lies with central banks and banks that control them in Europe and the US. It is just one giant fraud like too big to fail. There will be no recovery only continual efforts to sustain the criminal enterprise.

As inflation climbs, unemployment will grow and wages will remain stagnant so that the anointed can continue to accumulate wealth. The beneficiaries will as usual be the elitist connected corporations, all those crooks who do not go to jail. Soon profits for smaller and medium sized companies will diminish as they are forced to absorb part of price inflation. Needless to say, there will be no hiring.

People worldwide see the dilemma of the US, UK and Europe and that in part is why you are seeing turmoil that has had its beginnings in North Africa and the Middle East, not that the US, UK and Europe were involved in the uprisings, but the catalyst had been in place as well. The reason for change is higher food prices. The world public is tired of tyrants and governments that refuse to answer the needs of the people. Again, part of the reason for change is the discovery that these dictators and those who control governments have to be dispensed with. You might say, as Saudi Arabia goes, so goes the Middle East and North Africa. If the so-called monarchy falls in Saudi Arabia the entire region is up for grabs. That would spell the end of the petro dollar, which would signal the demise of the dollar. That is something to be aware of and to contemplate.

As you know, historically when you have bad episodes such as those we are seeing in North Africa and the Middle East that the dollar has rallied strongly. Not this time. The dollar is falling not only against the six major currencies, but also versus gold and silver. We could be headed toward a test of 71.18 soon on the USDX. That makes US imports more expensive and exports cheaper, which would cause a balance of payments surplus. The downward dollar pressure would continue though, because the $1.6 trillion deficits would continue. We believe as history is evaluated Ben Bernanke as well as Alan Greenspan will be found to be totally incompetent. Today we have price and monetary inflation that are terrible. Eventually as the economy and coming hyperinflation becomes manifest we will then see a fall we have all been anticipating for years into deflationary depression.

After three attempts to rally past 82 the dollar in the USDX has faltered again, this time to 76.48. There is technical support at 76 and fundamental support at 74 and 71.18. Current weakness is systemic, but it is being aided by QE2 and stimulus 2.
Finally players are realizing that real inflation is more than 7%, headed for 14% this year, as a result of QE1 and stimulus 1. Next year the result of QE2 and stimulus 2 will start to drive up inflation. At the same time wages and salaries are under intense pressure, especially by major corporations. Next year we will see inflation in excess of 20% and in 2012 and 2013 we will see the inflation caused by QE3 and stimulus 3. That should take us over 30% inflation and into hyperinflation. What else can be expected with QE and stimulus spending of $2.5 trillion a year? You are going to find your government, the Fed and Mr. Bernanke along with Wall Street have been wrong about just about everything. That means that August could bring a debt downgrade for the credit of the US. That would bring further pressure on the dollar downward and pressure to the upside on interest rates. These events will expedite the need for a major meeting among countries, similar to the Smithsonian meetings in the early 1970s, the Plaza Accord of 1985 and the Louvre Accord of 1987, where currencies are devalued and revalued versus one another and some form of multilateral debt default. They would bring about a recharged dollar with 25% gold banking, or a combination of currencies in an index, also backed by gold. It is coming, but probably not this year. During this coming period unemployment will lie stagnant and the US will begin to experience 3rd world poverty. Were it not for food stamps and extended unemployment benefits and other forms of government aid the US would look like it looked in the 1930s. At the same time $100.00 oil along with food price inflation signals a loss in consumer buying power of $200 billion and $120 oil will signal more than a $400 billion loss in purchasing power. That means GDP would fall ½% to 1-1/2%.

The above means that any future currency will have to be backed by gold or silver or both, whether the elitists like it or not. Multilateral acceptance is extraordinarily important, because such backing and discipline is the only element that can save the financial system and the elitists know that. On the other hand such backing puts a governor on their wealth accumulation, power and dream of world government.

The euro could have worked had it been structured properly and the SDR is hopeless. The yuan simply isn't seasoned enough and China has a host of problems, which are seldom discussed. Thus, it is either a reformulated dollar or an index of gold and or silver backed currencies. Anything less simply won't work never mind be accepted. The world has seen again that unbacked currencies and corporatist fascist economic policies do not work. They lead to the subjugation of the people and destroy the quality of life for everyone except the wealthy, connected, elitists, who live well while the remainder of the world lives in poverty. The ongoing effect to bring about world government will again fail and mankind will again emerge from the economic, financial and even perhaps the rubble of WWIII. Desperate people do desperate things; so do not be surprised if another war is deliberately started like so many wars throughout mankind. Sound money is the only answer and really the only alterative is a reformulated dollar backed 25% by gold at a much higher price. An index of currencies or 4 or 6 regional currencies won't work well either. A gold standard guarantees stability, enforcement of law and the unbridled excesses of Wall Street and banking. We need Glass-Steagall back and we need jail time for the crooks running Wall Street and banking.

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