The Fed's "QE Infinity": Money Galore… What Is It All About?

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Web of Debt

QE3, the Federal Reserve's third round of quantitative easing, is so open-ended that it is being called QE Infinity.

Doubts about its effectiveness are surfacing even on Wall Street. The Financial Times reports:

> Among the trading rooms and floors of Connecticut and Mayfair [in London], supposedly sophisticated money managers are raising big questions about QE3 — and whether, this time around, the Fed is not risking more than it can deliver.
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> Which raises the question, what is it intended to deliver? As suggested in an earlier article here, QE3 is not likely to reduce unemployment, put money in the pockets of consumers, reflate the money supply, or significantly lower interest rates for homeowners, as alleged. It will not achieve those things because it consists of no more than an asset swap on bank balance sheets. It will not get dollars to businesses or consumers on Main Street.

So what is the real purpose of this exercise? Catherine Austin Fitts recently posted a revealing article on that enigma. She says the true goal of QE Infinity is to unwind the toxic mortgage debacle, in a way that won't bankrupt pensioners or start another war:

> The challenge for Ben Bernanke and the Fed governors since the 2008 bailouts has been how to deal with the backlog of fraud – not just fraudulent mortgages and fraudulent mortgage securities but the derivatives piled on top and the politics of who owns them, such as sovereign nations with nuclear arsenals, and how they feel about taking massive losses on AAA paper purchased in good faith.
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> On one hand, you could let them all default. The problem is the criminal liabilities would drive the global and national leadership into factionalism that could turn violent, not to mention what such defaults would do to liquidity in the financial system. Then there is the fact that a great deal of the fraudulent paper has been purchased by pension funds. So the mark down would hit the retirement savings of the people who have now also lost their homes or equity in their homes. The politics of this in an election year are terrifying for the Administration to contemplate.

How can the Fed make the investors whole without wreaking havoc on the economy? Using its QE tool, it can quietly buy up toxic mortgage-backed securities (MBS) with money created on a computer screen.

Good for the Investors and Wall Street,

But What about the Homeowners and Main Street?

The investors will get their money back, the banks will reap their unearned profits, and Fannie and Freddie will get bailed out and wound down. But what about the homeowners? They too bought in good faith, and now they are either underwater or are losing or have lost their homes. Will they too get a break? Fitts says we'll have to watch and see. Perhaps there was a secret agreement to share in the spoils. If so, we should see a wave of write-downs and write-offs aimed at relieving the beleaguered homeowners.

A nice idea, but somehow it seems unlikely. The odds are that there was no secret deal. The banks will make out like bandits as they have before. The never-ending backdoor bailout will keep feeding their profit margins, and the banks will keep biting the hands of the taxpayers who feed them.

How can Wall Street be made to play well with others and share in their winnings? In a July 2012 article in The New York Times titled "Wall Street Is Too Big to Regulate," Gar Alperovitz observed:

With high-paid lobbyists contesting every proposed regulation, it is increasingly clear that big banks can never be effectively controlled as private businesses. If an enterprise (or five of them) is so large and so concentrated that competition and regulation are impossible, the most market-friendly step is to nationalize its functions. . . .

Nationalization isn't as difficult as it sounds. We tend to forget that we did, in fact, nationalize General Motors in 2009; the government still owns a controlling share of its stock. We also essentially nationalized the American International Group, one of the largest insurance companies in the world, and the government still owns roughly 60 percent of its stock.

Bailout or Receivership?

Nationalization also isn't as radical as it sounds. If nationalization is too loaded a word, try "bankruptcy and receivership." Bankruptcy, receivership and nationalization are what are SUPPOSED to happen when very large banks become insolvent; and if the toxic MBS had been allowed to default, some very large banks would have wound up insolvent.

Nationalization is one of three options the FDIC has when a bank fails. The other two are closure and liquidation, or merger with a healthy bank. Most failures are resolved using the merger option, but for very large banks, nationalization is sometimes considered the best choice for taxpayers. The leading U.S. example was Continental Illinois, the seventh-largest bank in the country when it failed in 1984. The FDIC wiped out existing shareholders, infused capital, took over bad assets, replaced senior management, and owned the bank for about a decade, running it as a commercial enterprise. In 1994, it was sold to a bank that is now part of Bank of America.

Insolvent banks should be put through receivership and bankruptcy before the government takes them over. That would mean making the creditors bear the losses, standing in line and taking whatever money was available, according to seniority. But that would put the losses on the pension funds, the Chinese, and other investors who bought supposedly-triple-

A securities in good faith—the result the Fed is evidently trying to avoid.

How to resolve this dilemma? How about combining these two solutions? The money supply is still SHORT by $3.9 trillion from where it was in 2008 before the banking crisis hit, so the *Fed has plenty of room to expand the money supply. (The shortfall is in the shadow banking system, which used to be reflected in M3, the part of the money supply the Fed no longer reports. The shadow banking system is composed of non-bank financial institutions that do not accept deposits, including money market funds, repo markets, hedge funds, and structured investment vehicles.)*

Rather than a never-ending windfall for the banks, however, these maneuvers need to be made contingent on some serious quid pro quo for the taxpayers. If either the Fed or the banks won't comply, Congress could nationalize either or both. The Fed is composed of twelve branches, all of which are 100% owned by the banks in their districts; and its programs have consistently been designed to benefit the banks—particularly the large Wall Street banks—rather than Main Street. The Federal Reserve Act that gives the Fed its powers is an act of Congress; and what Congress hath wrought, it can undo.

Only if the banking system is under the control of the people can it be expected to serve the people. As Seumas Milne observed in a July 2012 article in the UK Guardian:

> Only if the largest banks are broken up, the part-nationalised outfits turned into genuine public investment banks, and new socially owned and regional banks encouraged can finance be made to work for society, rather than the other way round. Private sector banking has spectacularly failed – and we need a democratic public solution.

Ellen Brown is an attorney and president of the Public Banking Institute. In Web of Debt, her latest of eleven books, she shows how a private cartel has usurped the power to create money from the people themselves, and how we the people can get it back. Her websites are http://WebofDebt.com, http://EllenBrown.com, and http://PublicBankingInstitute.org.