you'll find that the price of the dollar dropped relative to the euro for a while, going up towards $1.30 per euro, or 'teuro,' as its called. [The German word *teuer* means expensive.] Then it went down to about $1.15 or something like that, because this money was being sucked out of Europe by this high-dividend and high-interest-rate policy of the United States, of the outgoing Greenspan. But now, the Europeans—London—are going to raise the prime interest rate a quarter of a percent. So, you'll pull the plug the other way.

"Now, this is getting very close to the kind of back-and-forth tug of war, which leads to hyperinflationary explosions of all kinds, in Technicolor—and even with some colors that are otherwise not known to exist. This question of the interest-rate wars, and dividend wars: People don't have any assets, but by selling their aunt and uncle, and calling it a 'dividend,' they try to leverage something out of the hedge-fund market. The hedge-funds are being boosted by this. The hedge-fund grabs hold of a corporation; it forces it by so-called 'shareholder value,' to spill dividends out. The stock goes up a little bit, the fund makes a profit—and then they drop it, and go on and do something else.

"This is what's going on. This is *extremely* dangerous. This is really hyperinflationary stuff. We seem to be missing it, because people are looking at the effect of the reporting: 'Oh! The interest rate is up! Is that good or bad, or whatever?' This is a *process,* while they're looking for a *thing.*"

Bernanke Begins Warming Up the Hypercopters

On Nov. 10, the Federal Reserve put a discreet bombshell on its website, announcing its intent to "cease publishing" the "M3" money supply figures. The announcement, buried in the statistical section, gave no reason for the move. However, Nov. 22 articles in both the *New York Post* and Bloomberg said the Fed asserted cost-cutting as the reason. Bloomberg's Caroline Baum said that the Fed determined it could save itself $500,000 a year and save depository institutions $1 million a year by discontinuing the publication of M3.

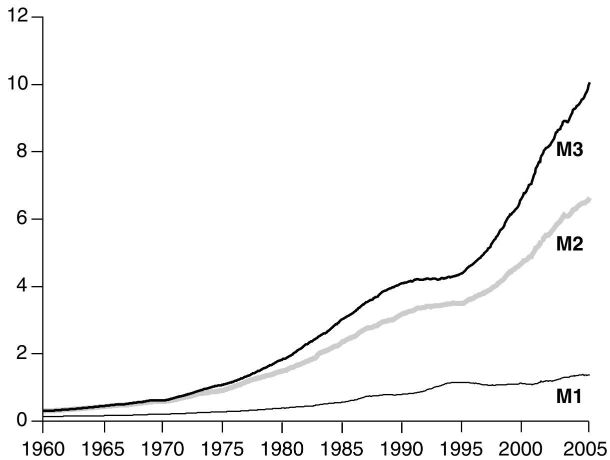
Before we start laughing too hard, a word about M3. The Fed measures the money supply in three broad categories, named M1, M2, and M3. M1 consists of currency, travellers' checks, and most ordinary deposits—basically cash and cash-equivalents. M2 includes M1, plus savings deposits, small-time deposits, and retail money-market funds—basically M1 plus money that is not immediately available, but relatively easy to get. M3, the broadest measure, includes M1 and M2, plus institutional money-market funds, large-denomination time deposits, repurchase agreements, and eurodollars—basically M2 plus large institutional and less fungible funds.

As of October 2005, M1 stood at $1.37 trillion, and M2 stood at $6.63 trillion. For the first time ever, M3 broke the $10 trillion level, ending the month at $10.06 trillion. Over the past year, M1 has grown at a 0.6% annual rate, compared to 4.0% for M2 and 7.3% for M3. M3 has doubled in the last ten years.

To understand what the Fed is doing, go back three years. On Nov. 19, 2002, Sir Alan Greenspan gave a speech at the Council on Foreign Relations in Washington, in

Pumping Up the Bubble U.S. Money Supply, 1960-Oct. 2005

(By Month, $ Trillions)



Source: Federal Reserve

which he promised that the Fed would, if necessary, bail out the financial system through its "unlimited power to create money." On Nov. 21, 2002, then-Fed Gov. Ben Bernanke told the National Economic Club that the Fed, with its ability to produce "as many U.S. dollars as it wishes, at essentially no cost," stood firmly behind the speculative bubble. Bernanke, now the incoming Fed Chairman, cited Milton Friedman's comment about dropping money from helicopters.

The idea that the Fed would stop tracking M3 during the worst financial storm in history, is ludicrous. The Fed is dropping the reporting of M3 because it is planning to do precisely what Lord Greenspin and Benny Bubbles said it would do: Drop money by the helicopter load, to try to keep the central banking system afloat.—*John Hoefle*