Bernanke Opens the Monetary Spigots

by Paul Gallagher

Sept. 18—Coordinated with, and exactly like European Central Bank (ECB) chief Mario Draghi's announcements, U.S. Federal Reserve Chairman "Helicopter Ben" Bernanke's Quantitative Easing III policy, announced Sept. 13 after the Fed's Open Market Committee meeting, is unlimited money printing, open-ended in time and volume, and aimed at simply pouring hundreds of billions in new Fed notes into the large banks to bail them out of their worthless mortgage-backed securities yet again. Any cynical attempt, as by Bernanke himself at his post-meeting press conference, or by President Obama, to call this a "Main Street policy" "to create employment," will be rapidly blown away in an inflationary debt spiral.

Even the numbskulls at the Fed know what the inflationary result will be. QEI and QEII (2008, and 2010, respectively) each drove food and fuel price increases of about 50%, according to generally accepted statistics.

And even prior to the Bernanke announcement, the process was underway in the U.S.: The Labor Department reported Sept. 14 that wholesale inflation took off in August. Food prices rose 1%. Fuel prices rose 13.6%. Statistical legerdemain (food and fuel don't get counted in the inflation statistics!) kept the overall producer price rise to "just" 1.7% for the month, after nearly a year of claiming no wholesale inflation at all. So when the rigged consumer price index was announced Sept. 15, it showed up 0.7% in August.

And living standards? Average U.S. hourly earnings were unchanged, so "real earnings" fell 0.7% in the month, according to the Labor Department. Real *weekly* earnings fell 0.6%. It also reported that unemployment claims are rising again in the direction of 400,000 (382,000 the week ending Sept. 14). Then the Federal Reserve reported that industrial production dropped 1.2% in August from July, the largest one-month drop since "the bottom" in early 2009. Capacity utilization dropped to 78.2%, lowest in over a year.

Pump Out the Money

Into this economic contraction, Bernanke promised to pump $80-85 billion per month, indefinitely, in net securities purchases from the banks; zero interest rates to mid-2015 (which would make six years); and, if mass unemployment and labor force shrinkage do not improve ("Fewer than half the 8 million jobs lost in the recession have been restored," Bernanke said, despite Obama's claims), the Fed may add additional money-printing/bond-buying to its announced $80-85 billion per month at any time.

Former Fed governor Kevin Warsh on CNBC this morning said of the Fed bailout: "If they believed the economy and prospects were moving even slowly to a higher path, I don't think they would have decided to be nearly as aggressive as this."

In effect, Bernanke adopted "GDP targeting" and "employment targeting" in a developing situation of contracting GDP and employment—a recipe for a hyperinflationary debt spiral. At the ECB, "Hyper-Mario" Draghi adopted "interest-rate targeting" in the same spiral. But it's all going to bail out big banks, which are nonetheless unable to lend.

'QEIV-Ever'

The conservative web publication *The Examiner*, calling it "QEIV-ever," noted: "The future consequences of today's Federal Reserve action will not be seen completely in a day, or in a week, but rather, in totality over the next six to nine months. What the Fed did was to ... play their final hand, and by instituting open-ended quantitative easing, the markets, currencies, and now, the American people, understand that inflation, and possibly hyper-inflation, are very real scenarios."

The Examiner's co-thinkers at zerohedge.com had this to say: "The Fed has as of this moment exposed its cards for all to see from here until the moment it has to start tightening the money supply (which may or may not happen; frankly we don't think the Fed tightens until hyperinflation sets in at which point what the Fed does is meaningless)."

Economist John Williams of shadowstats.com, in an interview, forecast "hyperinflation, not late in the decade as I previously forecast, not in 2014 as I said more recently, but hyperinflation by 2013."