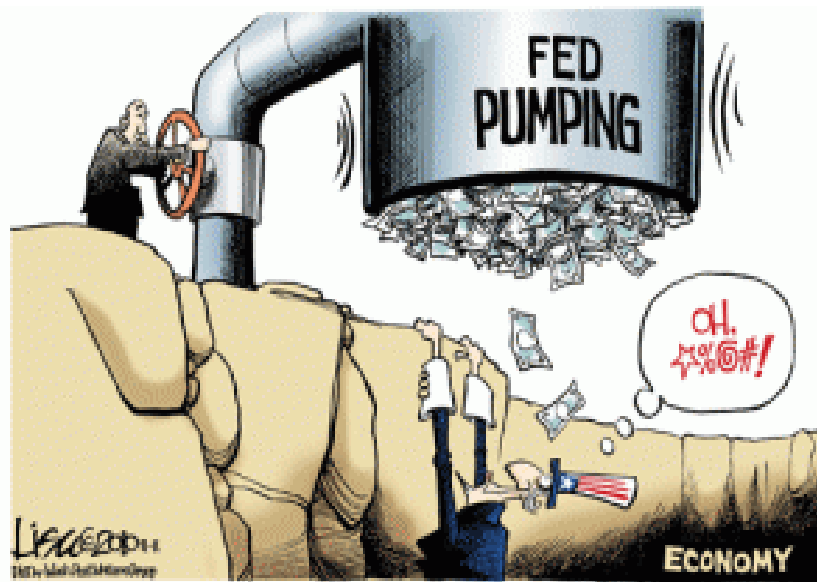


## INSANITY OR INGENIOUS?<sup>1</sup>

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What is happening in the economy is signaling enormous changes for the U.S. and the world. The scale of what the Federal Reserve is doing is unparalleled in human history. No country has ever produced so much money and so much debt in such a short amount of time. The Fed has embarked on another round of money printing (Quantitative Easing or QE2). It has been reported that it will buy \$600 billion in Treasuries and another nearly \$300 billion in mortgage-backed securities. In a statement nearly two weeks ago, The Fed left its plan of money printing open-ended. It said it would, “regularly review the pace of its securities purchases and the overall size of the asset-purchase program in the light of incoming information and will adjust the program as needed.”



All the fancy financial terminology and complicated skullduggery can be boiled down to a simple phrase or two. The dollar is being debauched at the hands of the Fed, and the massive debt and future commitments we owe will never be paid off in “real” money. Boston University Economist Laurence Kotlikoff says the real amount America is on the hook for is \$202 trillion. For perspective, just one trillion dollars is a stack of \$1,000 bills nearly 65 miles high!

The Fed is trying another round of QE, even though the first installment of \$1.7 trillion did not work to actually repair the economy. We spent another \$2 trillion in TARP and other stimulus that was, also, supposed to fix the economy. It’s a grand total of \$3.7 trillion just in the last two years. (Some say it’s more than \$12 trillion spent or committed.) All this money printing did inflate stock prices. It also helped out the big banks. It worked so well they are paying a record \$144 billion in bonuses this year. What did the man on the street get?—foreclosure fraud and higher unemployment (22.5% according to Shadowstats.com). Now, the money is running out, and the Fed is back to printing to keep the economy from falling off a cliff—again. Nothing has been fixed; the day of reckoning has just been postponed, but this cannot go on forever. At some point, the U.S. dollar will take a severe plunge, and inflation will hit America with a vengeance.

<sup>1</sup> USA Watchdog, November 15, 2010

For the life of me, I cannot understand why anyone would believe the Fed on any issue or prediction. These are the same people that fueled the internet and housing bubble and told us the sub-prime real estate crisis would be “contained.” You see how that worked out. In some markets, housing is down 50% since the peak. Foreclosures are hitting record highs, and this is all going on as interest rates are at record lows. The Fed’s actions are temporarily holding mortgage interest rates down. Meanwhile, the government is supplying 95% of the mortgages. What is going to happen when the government stops doing this and mortgage rates go up to just 7% or 8%? Are we going to see another crash in home prices? How can we not? The commercial real estate market is in the same dire straits as residential. It needs tens of billions of dollars each and every year to refinance debt on buildings that have fallen dramatically in value. Nearly every state in the union is having budget shortfalls that total \$200 billion, according to banking analyst, Meredith Whitney. The states need massive bailouts and budget cuts. And to top it off, we are fighting two very expensive wars with no end in sight. All of this is an enormous drag on the economy.

Because of the mainstream media’s poor coverage of the economy, most people have no idea how bad things really are. They are being told constantly that we are in a “recovery.” There is no “recovery” because nothing has been permanently fixed. Banks are allowed to price toxic assets and devalued real estate at peak prices. The government sanctions what amounts to be accounting fraud to help the banks look solvent when, in fact, they are in deep financial trouble. (In April of 2009, FASB changed accounting rules to allow banks to hold real estate and mortgage bonds at whatever value they want, even though some are only worth a fraction of their original value.) It’s like someone in Kansas that only sees flat ground for as far as the eye can see and thinks the world is flat. If you only see bogus accounting, you would think the banks are a picture of health when just the opposite is true. Mainstream media does not even cover the nearly 150 small and regional banks that have gone under this year alone. It is the most bank failures since the savings and loan crisis in the early 1990’s. You do not hear the mainstream press make even a peep about this sea of red ink at the FDIC.

I am told constantly by my readers that most in the U.S. do not understand what is going on. What is coming is a much lower standard of living for most Americans because of inflation. The reason is the Fed may not be able to stop printing money. Sound crazy? Jim Rickards, an expert in investment banking and risk management, says the Fed has no way to stop the runaway money train. In a recent article he did for King World News, Rickards said, “So, here’s the bottom line on money printing, or QE if you prefer. If nothing happens, the whole thing was a waste of time. If inflation takes off, the Fed will have to choose between holding bonds and letting inflation get worse or selling bonds and going bankrupt in the process. Since no entity goes down without a fight, the Fed will naturally hold the bonds and let inflation take off. Do not ask about the exit strategy from QE; there is no exit.”

Albert Einstein’s definition of insanity is “doing the same thing over and over again and expecting different results.” I don’t think Ben Bernanke and the rest of the Fed think they will get a different result with this fresh batch of money printing. It will get what it got the last time. It will kick the can down the road and help the big banks look solvent and help the stock market. By the way, according to ZeroHedge.com, “. . . last week’s insider selling of all stocks (not just S&P) hit an all time record of \$4.5 billion.” When the phony money runs out, QE2 will end in failure for the overall economy, and the man on the street will still be left out in the cold winds of inflation. So what the Fed is doing is not insanity or ingenious. Money printing is simply all it has left in its bag of tricks. I think it wants to print all it can to save its buddies before the currency evaporates in a hyperinflationary depression.