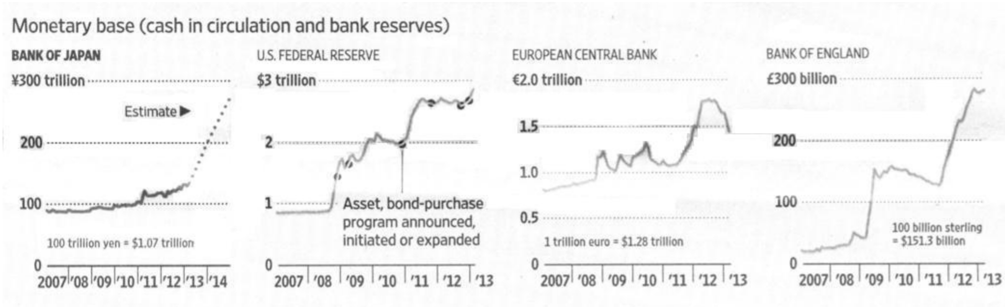
CYPRUS, BEN BERNANKE, AND THE VALUE OF YOUR MONEY

The recent announcement by Cypress that bank savings accounts in that country with values in excess of 100 thousand euros will forfeit about 40% of their value has led to riots and the realization that this form of money confiscation could happen at other places throughout the world especially in Italy, Spain and Portugal. What is not clear to many is that the policy of Quantitative Easing instituted by the Federal Reserve in November of 2008 has accomplished essentially the same thing but in a more secretive manner by providing zero percent interest rates on savings and thus depriving savers, and especially senior citizens who rely on interest to pay for living expenses, of obtaining a reasonable return on their savings. The Fed money easing has the additional detrimental effect of decreasing wealth by increasing prices at the grocery store , gasoline pump and other areas not considered in the CPI .

The man mostly responsible for Quantitative Easing in this country is Ben Bernanke, a former economics professor at Princeton University and now chairman of the Federal Reserve. He is one of the few remaining strong believers (as is his Princeton colleague Paul Krugman) in Keynesian Economics in which a sinking economy is supposed to be revivable by the injection of fiat currency into the system. Bernanke(who is often referred to as Helicopter Ben) has been practicing this approach on an unprecedented scale in recent years having raised the US Monetary Base from some 800 billion in 2008 to 3 trillion today. In effect, he has diluted the currency by a factor of 3.75 with little to show for it as far as an improving economy and the lowering of unemployment. The main negative effects quantitative easing has had is to lower interest rates for savers to zero percent, decrease the real wealth of middle class families, and a reduced tax intake by the US treasury. The positive effects have been mainly for the benefit of banks and Wall Street by making low interest money available for stock and commodity speculation. Also it has reduced the interest rates the government needs to service the ever increasing national debt.

Although many of us have recognized the error of the Fed's money printing over these last four years, it is now becoming clear to a majority of the American public that something is wrong with this approach and that its negative effects are starting to be felt throughout the world. As a recent article in the Wall Street Journal points out, Quantitative Easing has infected the world with Japan being the latest country to try it on a grand scale. The attached graph, taken from the WSJ article, shows quantitative easing efforts in several countries-



Unfortunately such mutual monetization of currencies will lead to world wide inflation and currency wars where countries will try to outdo each other in a race to the bottom. The Fed is playing a very dangerous game, as is finally being recognized by both congress and the American public. Bernanke's recent congressional testimony, in which he attempted to sell the benefits of continued easing, has engendered thousands of negative comments on the internet. I have collected a few of these and present them in slightly censored form below-

He has stolen more money from savers and seniors than anybody in history.

Bernanke is stealing from prudent savers, retirees and widows who don't speculate.

He is creating the biggest bubble in the history of the universe.

Ben has destroyed working peoples savings, and created no jobs in the process.

The Fed is presiding over the biggest wealth confiscation in the history of this nation.

All I can say is that the Fed Chairman must have a very thick skin to be able to withstand criticisms of this type without beginning to realize that his Keynesian approach is not working for the majority of Americans. Under normal conditions a resignation or at least non-reappointment in 2014 would be called for in order to allow some new approaches on monetary policy by the Federal Reserve. Senator Bob Corker of Tennessee hit the nail on the head the other day when he remarked to Fed Chairman Bernanke- "You have thrown seniors under the bus".

Let us hope that the present policy of Quantitative Easing to Infinity stops soon so that the dollar can be saved and the economy can resume its natural course. It is true that the bank derivative problems have not been solved and that it probably will lead to a few more bank failures. However, this is not a reason to punish the rest of the US population, and especially those who pay taxes, by forcing them to purchase toxic assets generated by the banks. Also some extra reading by members of the Federal Reserve Board of the writings of Ludwig von Mises and Frederick von Hayek of the Austrian School of Economics would prove useful to help balance the exclusive (and in my view mistaken) Keynesian views they seem to have.