QE3: The Fed Entrapped in the Perpetual issuance of Money

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Global Research, April 11, 2012
International Forecaster 11 April 2012

Region: USA
Theme: Global Economy

It was 13 months ago we disclosed that the administration passed a stimulus bill known as the $17.5 billion "Hiring Incentives Act" to restore employment. It required that foreign banks not only withhold 30% of all outgoing capital flows, and disclosure of the full details of transactions of non-exempt holders to the Internal Revenue Service. They want the structure of how money ended up at that bank. In addition banks, particularly in Switzerland are required to close the account. That is equivalent to capital controls, so in future it will be easy to put currency controls of all funds entering or leaving the US.

Now we have a new gem on our hands, Senate Bill 1813, which was presented by California Senator Barbara Boxer. The bill has been passed in the Senate 74-23 under the "Moving ahead for progress legislation in the 21st Century Act."

Section 4034 of the legislation states that any individual who owes more than $50,000 to the IRS will have their passport confiscated, revoked, or put on special terms and they will be denied exit or entry, out or into the US. The bill is loosely written, so as usual the interpretation is left up to bureaucrats in Washington. Hopefully this inclusion will be struck down in the House. Inasmuch almost all our Congress is bought and paid for – you will have to lobby very hard to eliminate it from the bill. This is not about tax evasion; it is about people control and their assets. E-mail, fax, write and call all House members to stop another nail being put in our coffin.

As we pointed out in past issues, Operation Twist, was just another surreptitious attempt to mask a QE 3 operation the Fed sold the short end of the bond market and bought the long end in order to keep mortgage rate down, which we find was unsuccessful. Thus, the regular QE 3 is ready to be launched.

ADP and BLS employment figures are totally bogus, so we'll stick with John Williams' 22.4%.

The Fed is not going to lower interest rates, they can't. If they increase them the bond market would collapse and all confidence in the system would be gone.

We continue to believe if any military action is going to happen regarding Iran, it won't happen until next year. This day by day will be negative for the US petrol dollar.

These zero interest rates are killing mutual funds and pension plans. Public pension plans are short $327 billion. Having really nowhere to go to they are buying bonds. The 2011 shortfall was $85 billion and that should worsen unless the stock market reaches substantial new highs.

The FOMC meeting minutes said a QE 3 was not in the offering. Keep remembering they can change their minds in the wink of an eye. We can then refer to the trillions that have been poured into the system over the past few years. They are at work, whereas what about the trillions in the system, that have not been as yet lent. Do they really need QE 3 if banks decide to lend to offset a recovery? Not really, but they believe saving the financial system is more important. Once money creation occurs it is very difficult to stop. This tactic has been employed since 2000 and shows no evidence of stopping. In both Europe, the US and UK interest rates are headed substantially higher and bond players as well as banks are painfully aware of it. As a result CDS rates are climbing as well.

Since 2000 the Fed has entrapped itself in perpetual issuance of money and credit and now the ECB has done the same thing. Once begun there is no going back. It either works or the system collapses. It is our opinion that the ECB is out of control and this is only the beginning. If the $1.4 trillion the ECB dispensed isn't enough and it won't be, then we will have lots more currency swaps in the future and that means higher inflation.

The original source of this article is International Forecaster

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