

Quantitative Easing, Inflation, Hyperinflation and Global Deflationary Depression

By [Bob Chapman](#)

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Today's great debate basically between the US and Europe is – should the Fed go full bore by implementing a second quantitative easing? In part it is a moot point, because they have been doing just that in the repo market for four months without letting anyone know what they were up too. Their mandate is to reduce inflation and create full employment. Real inflation is 7% and unemployment is 22-3/4%. The Fed for three years has concentrated on bailing out Wall Street, banking, insurance and transnational conglomerates. Little has been done to fulfill their mandated mission. The main recipients of their largess, of course, are the firms that actually own the privately owned Fed.

There are two options left to the Fed. Create a full QE2 by injecting another \$2.5 trillion into the economy, as they just did with QE1 with \$868 billion in assistance from the Senate and the House, or they can purge the system and have a deflationary depression. That result will be the fate of the Fed eventually if they create QE2 or perhaps QE3. No matter what the Fed does a deflationary collapse, one way or another, is inevitable.

Few pay attention to the fact that the US has been in deflation for 8 years and has been kept afloat by injections of massive amounts of money and credit. Not to be singled out most all nations have been doing the same thing and that is why all currencies have fallen versus gold for the past 9 years. This is how the game has been continued, otherwise we would have all fallen into deflationary depression or a death spiral. This has given us less consumption, zero interest rates and higher unemployment.

Officially inflation is 1.6%, but real inflation is 7% as most of the liquidity injections have been used to beat back the undertow of deflationary depression. That has resulted in a Fed expansion of from \$1 trillion to \$3 trillion and who knows how much more is being hidden on the books of other foreign central banks. As the Fed has told us it is all a state secret. To their credit the Fed has held off financial collapse, but we ask you how do they believe that they can keep this up indefinitely? The obvious sacrifice is the dollar and that is in progress.

As this increase in money and credit continues at a \$2 to \$2.5 trillion pace over the next year the vision of hyperinflation looms in the background. The only way to avoid hyperinflation is to allow deflationary depression to proceed. It is going to happen anyway no matter what the Fed does. The chaos of hyperinflation should be avoided at all costs. The owners of the privately owned Fed won't allow that because they want to hold on to power and control as long as possible. Thus, in all likelihood we will have inflation, then hyperinflation and then deflationary depression. Having been at this for 50 years we now nothing is written in stone. It may not seem sensible to you but it is reality. Our track record for the last 21 years speaks for itself. Correct calls in all sectors 98% of the time.

Wages and salaries and asset prices have been falling with inflation rising, as we have endured a credit crisis for the past three years. The dollar is close to its lowest levels and gold is flirting with \$1,360 an ounce. That is a disastrous situation for Americans, except the 2% to 3%, who have had sense enough to invest in gold and silver bullion, coins and shares. That excludes the ETFs, GLD and SLV, which we believe are a disaster waiting to happen.

Thus, there is to be another monetary expansion, which will take inflation up to 14% or more and that will in part cause a flight to quality, which will continue to be boasted by gold, which has replaced the US dollar as the world's reserve currency. Many question that, but in time people will realize that is what in fact has happened. Monetarily that means that the one-worlder's dream of a world currency will never be fulfilled. Hyperinflation in the US dollar will spread in varying degrees to all fiat currencies and these elitists will be deprived of issuing any currency that is not backed by gold. The game they have played for so long, the suppression of gold prices, will be lost. That means those who are in control already realize that their war against gold for financial domination has been lost and they will have to concentrate on the survival of what they term, their system.

Inflation is on the way in much higher numbers to be followed by hyperinflation and ultimately deflationary depression.

Presently the US government debt to GDP is about 93% of GDP with an annual debt to GDP of about 10%. QE2 means more of the same along with government debt. Government continues to create debt and the Fed continues to monetize debt. Both are trying to bury the economy, increase demand and to keep deflation at bay. The result they hope is recovery, which in reality is out of their reach. Even with \$5 trillion over the next two years the best they can do is to barely stay on the plus side. Over the last two years they have accomplished very little.

Those who have been paying attention have seen the Fed's targeting of the Treasury market. Not only do they have interest rates at zero, but also they have caused yields on the 2-year bills to fall to 0.36%, but also the 10-year notes are yielding 2.47% and they look like they are headed lower. This makes borrowing very cheap for large corporations and for mortgage rates to be very attractive. This has made treasuries the focal point of Fed policy. The strength or weakness of their program. Most small business and medium sized businesses still cannot get loans and they are the ones that create 70% of the jobs. Thus, it is still Wall Street; banking, insurance and transnational conglomerates that get virtually free money. The intention is that all the elitists survive and the heck with the rest of the country. These same firms are the ones that are still laying off.

The result is that treasuries, in spite of their bogus AAA rating, are the new addition to junk bonds and toxic waste. They are overvalued and the yields ridiculous. We believe in time the Fed will end up with total treasury issuance. That means the US dollar will sink to new unheard of depths, which it is in the process of doing.

Much of the Treasury sales by money managers are sending money into the commodities market and in limited cases in gold and silver and shares. Such switches will put pressure on Treasuries, which will make the Fed's job more difficult. They will have to create ever more money to control that market. As we move forward the Fed will be forced to create more liquidity by buying more Treasuries than they might have to otherwise. Eventually this will appear to be a bubble, which it in fact it's becoming as we write, and that is how the Fed will

end up with the entire issuance.

The big money center legacy, too big to fail banks, is essentially broke. In fact they have been nationalized via infusions of capital by the Fed plus are being allowed to keep two sets of books. Regulations have been bypassed and they have become a law unto themselves with the help of the federal government, the BIS, The Bank for International Settlements, and the FASB. They borrow funds from the Fed at zero interest rates and then lend it back to the Fed at 2-1/2%, which taxpayers get to pay. This is for a subsidy to try to keep these banks on the edge of solvency. These actions also allow their officers multi-million paychecks that under the circumstances border on the obscene. They hoard funds and have cut lending to small- and medium-sized businesses by 25%, which keeps those funds sterilized. When they monetize these funds it is in the form of loans to the elite corporations and in the purchase of treasuries. This as the Fed buys \$1.7 trillion in toxic waste at prices it won't divulge from these same and other banks. Now they are in the beginning process of selling this toxic waste back to the banks at low prices to allow the losses to be transferred to the taxpayers. This is exactly what is going on. The fed is totally subsidizing these banks, which just happen to own the Fed. We call this an incestuous relationship. We all know what will happen when these banks and the foreign holders all try to exit Treasuries at once – the bubble will break. This time no one will be there to play catcher and yields will climb quickly and furiously.

This scenario brings us to where will all the money go? The first haven has been commodities. That will push prices up and add to price inflation. Those who choose to use ETFs will be jumping from the frying pan into the fire. We all can see that this is in process, especially in gold and silver prices. What is going to surprise you is that this sector change will be relentless in the flight to quality into real things. Yes, there will be wild volatility and corrections, but the upward trajectory will be maintained long beyond what people could have believed. Those owners will have nowhere else to turn. Bonds and the market will be falling along with the dollar and real estate is dead. They will continue to stay long commodities, gold and silver because there is no place else safe to go too. Unfortunately the populace will at this stage be treated to hyperinflation – the process in which people will have lost faith in the dollar and will dump it for goods and services as soon as it is received.

This is why a world meeting is necessary, such as the Smithsonian of the early 1980s, the Plaza Accord of 1985 and the Louvre Accord of 1987. Without such a meeting to realign currencies and to multilaterally default on debt there will be international financial and economic chaos. It would also lead to worldwide hyperinflation, emanating from the US. This would in all likelihood be accompanied by not only a flight to gold, silver and commodities, but also a collapse in treasury markets, particularly in the US Treasury market, which by that time could be totally owned by the Fed. That would push yields up and cause the stock market to fall.

Such events would force the public to use their currencies that they have lost faith in first by buying food and household goods before prices rose higher. Asset prices will collapse. The price of things, such as homes, buildings, cars, trucks, factories, etc. will collapse to 20% to 40% of what they were worth just a month ago. The functioning of the US and world economy would collapse. That is where bartering begins. Using gold and silver coins to complete transactions. You may not think what you are seeing could lead to all this, but it could, unless there is soon an international meeting to settle differences and patch up the existing system. No matter what happens there will be great dislocation and chaos.

Government cannot save us, only international cooperation can. One of the most important events would be a collapse in the Treasury market, accompanied with a stock market collapse. The flip side of that would be skyrocketing prices of commodities, gold and silver. There would be no other options left. Most people were too preoccupied with their lives to notice the advance of such events. America will wake up one morning to Martial law. That will be the only thing left for government to do to try to control the situation. It is not a solution, but it at least for a time will keep order. America is Humpty Dumpty. Such events have an excellent chance of occurring in 2011 and 2012, if a meeting is not held over the next six months. The key to such an accord is to revert to a gold standard for currencies worldwide at a price in excess of \$6,000 an ounce; otherwise the scenario will just begin again.

It is obvious we cannot continue to do what we are doing. It is not working. We are all headed toward global deflationary depression, even the most solvent nations, because most have very little or no gold left.

You had best prepare. First for higher inflation, then hyperinflation and then deflationary depression. If you do not prepare you will be very unhappy.

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