Federal reserve bailouts will devalue the dollar

Government

Since at least August of 2008, the privately owned Federal Reservefamilyof members banks are being bailed out by the US taxpayer. Some financial writers such as Rodgers (2008) hold that the bailout has been occurring for far longer, but at least as far as the rather timid news media are concerned, the “ public” side of the bailouts has occurred since September of 2008. This will lead to a serious devaluation of an already devalued dollar. The reasons and theory will be described in the body of this paper.

The basics are the following: after years of reckless lending and irresponsible spending by the public, the value of major investments, especially real estate, was dangerously overvalued. Continuing high returns gave banks incentives, at all levels, to extend credit with few controls, leading to the inevitable crunch that many mainstream writers claimed would never happen. The result, predictably, is that the larger institutions such as the major insurance form AIG, were to be bailed out.

The mechanism for this bail out is rather simple: the “ toxic” paper held by the private banks are to be exchanged for marginally less toxic paper from the Treasury. However, this paper has no value unless the Federal Government could borrow themoney. At the moment, there is an inexplicable international trust in the American government to forward the money, but the official $800 billion figure is far from the truth. Far more money is needed, and has been invested in this scam already. The arguments in favor of the bailout are poor and contrived.

They seem to revolve around the argument that if the major institutions fail, the shocks through the economy would be so bad as to affect even the most marginal taxpayer in America. With major bank and insurance failures, the

ordinary man in the street would be severely affected. Hence, the bailout is meant to protect the taxpayer. In addition, the argument also tacks on the addendum that the paper taken from the failing institutions will eventually be resold on the international markets once the crisis has passed and some level of confidence bas been regained (Warring, 2008).

This argument is very poorly thought out, since, by the same token, one's boss should have his debts paid by the US taxpayer since hisfailurewould lead to his employees losing their jobs. Hence, his debts should be paid. The argument against the bailout is equally simple: it continually places the economy at the mercy of borrowed money, and, more importantly, that the people who helped create this crisis are precisely the same ones that are being rewarded through bailouts.

It is fundamentally undemocratic and oligarchic in that the ordinary taxpayer in debt receives foreclosure, while the elite receive taxpayer money. Lastly, and more importantly relative to this essay, the continuing bailouts of the major economic players will dangerously increase the money supply and lead to hyperinflation (Warring, 2008). In dealing with the question of inflation and the fall of the dollar, the nature of the Federal Reserve institution needs to be dealt with. First of all, the Fed was created in 1913 as a private institution, not a part of the federal government.

Its member banks, according to Standard and Poor, are the Rothschild dynasty in London, the Seif dynasty in Italy, Lehman Bros in New York (allowed to fail in September), Chase Manhattan and Goldman Sachs, both in New York. While some may protest that the executive branch has some appointative power over the Fed, the reality is that the above firms are some

of the most generous with their money in presidential campaigns, and the Federal Election Commission reports that Goldman Sachs was the leading campaign contributor to both Obama and McCain campaigns, with $4 million to Obama and almost $1.

5 million to McCain (Open Secret Reports, 2009). Hence, it needs to be mentioned straight forward that the Fed banks are self governing and help elect the president in the first place. Hence, given the makeup of the Fed's board, little discussed outside the web, one can see that the bailout is over not merely the American financial sector, but the globe's. The significance of the fed relative to dollar devaluation is that whatever the US government cannot raise though loans, itself repressive of the dollar's value and repressive of international confidence, must be printed by the Federal Reserve members banks.

In more detail, the situation looks like this: The Federal Reserve international financial board of governors decided to increase the Monetary Base (MB) of the country last year. The MB is defined as the total amount of money in circulation plus the reserve of the members banks. This came to $1. 4 trillion by last December, coming up from $800 billion a month prior (Engdahl, 2008). With this, banks still did not want to lend, and confidence did not increase. Hence, there is a huge pool of liquid that is forcing the dollar down that is not restoring confidence.

This in part is because the US is broke, also in part that the amount of dollars held by foreign investors in China, the Arab World, Russia and India is a massive amount, continuing a downward pressure on the dollar and threatening the US with severedepressionif these states decided to dump

even a fraction of these dollars on the market. Is it possible that the bailout is really designed to give confidence to foreign governments and private banks who are thinking of purging their dollar reserves and moving to Euros?

The reality is that if there is a threat of devaluation, then states and investors might be induced to sell, creating a panic and bottoming out the currency. Since the Fed will not disclose the recipients of the loans, and, further, the Treasury department will not disclose the nature of the toxic paper they are buying, there is no rebounding in confidence, hence, the dollar looks terrible in international eyes. Hence, the Fed, realizing the state, which backs the dollar in the first place, has no money to lend, will merely print the money to fill the gap (Engdahl, 2008).

Hence, given the stagnant MP, plus the fact that the bailout is being financed by foreign borrowing and by printing, there is no question that the dollar will fall. Since 2000, the dollar has lost 40% of its value against the Euro. In the chart below, the dollar is compared with the Euro during the bailout from 28 December 2007 to 27 January 2008. The below graph does indicate some recovery of the dollar against te Euro, but there can be no doubt as to the long term weakness of the US currency.

Apparently, there is some mild increase in confidence that the bailout might make the US economy more solvent, but the below information is too limited for a full understanding. From the beginning of the bailout until mid November of last year, the US debt increased almost $958 billion. Add to this the record breaking trade deficit of almost $1 trillion, and the dollar is in serous trouble. The increase in public debt due to the bailout out is

destroying the dollar’s value. According to Asia News (2008), the US is now committed to over $8.

95 trillion dollars to the bailout. The total US economy was roughly $13 billion, with the full debt at about $10 trillion. About 61% of this debt was held by foreign investors, the majority Asian. Since trillions of dollars are held by Asian investors, and debt in the US (both private and public) reaches levels of complete insolvency, the Asians will insist on eliminating dollars as a method of doing business and hence, the dollar will not only loose value, but collapse, leading to a crisis of Argentinian proportions in 2009 (Asia News, 2008).

This year, the same author at Asia News writes: “ But Asia now understands that the increase of money supply decreases the intrinsic value of a currency. That is why China is seeking a possible and rational attempt to decouple Asian currencies from the dollar, as recent news stories report. (Asia News, 2009). Hence, the math is simple: too many dollars in circulation, too much printing by the Fed to create the bailout liquidity means the devaluation and eventual collapse of the dollar, and the US taxpayer is powerless over the private Fed as well as the foreign investors that are publically now saying they will eliminate dollar reserves.

The reality is this: once there is a sense that a country is insolvent, and that it simply cannot pay its debts, compounded by a massive bailout that the country cannot possiblyfinanceon its own, investors run to get rid of dollars. Even worse, capital fight can result, where money begins leaving the insolvent country, in this case the US, investing instead in Russia, China, Thailand or the EU. Hence, the bailout is merely the tail end of a long fall in

th US dollar, a powerful symbol of the US government and corporate governance to control investment and spending.