Written by **Steven J. DuBord** on April 14, 2009

# Printing and Spending Our Way to Prosperity

*The "new money," said the editors of the Seattle paper, "lowers interest rates for interbank transactions, and creates an incentive to loan money. The Fed is watching its balance sheets as it tries to use the sticks and carrots of a central bank to get lenders to put money into the economy. For as frightfully big as the numbers appear, this practice does not have to be inflationary, according to economic experts. There is time for the monetary policy to work its magic, and the Fed can reverse its policy in the future. Or so it is hoped, because a move of this scale enters new territory."*

**CORRECTION:** If you have spent too much money and accumulated too much debt, you'd be a fool to think the proper response is to splurge even more on luxuries and max out new credit cards that will drive you deeper into the hole. However, the central bank and the Obama administration are doing just that — and doing it with our money. The president calls this the "new era of responsibility."

While the Fed was creating money out of thin air, supposedly printing our way to prosperity, the president was rolling out a mammoth budget of $3.8 trillion, with federal spending more than a third higher than last year's adopted budget. The projected orgy of government expenditures and higher taxes will also result in an enormous deficit, dripping with about $1.8 trillion in red ink, according to the Congressional Budget Office. This is the alleged blueprint to spend our nation into prosperity.

Flooding the market with more than a trillion new dollars was called a bold move in some quarters. In actuality, it was a guarantee that today's dollars will soon be worth less. Of course, the designers of the supposed rescue plan didn't put it that way, but that is exactly what happens when there is an expansion of the supply of money and credit — also known as inflation.

It really isn't that complicated: when you live beyond your means, there is still a bill to pay. Inflating the currency is theft, penalizing those who save and rewarding those in debt. And the government is the largest debtor of all.

Economist Henry Hazlitt, for one, explained this about as simply as possible. In his "Inflation in One Page" in 1978, Hazlitt pointed out in part:

> Inflation is an increase in the quantity of money and credit. Its chief consequence is soaring prices. Therefore inflation — if we misuse the term to mean the rising prices themselves — is caused solely by printing more money. For this the government's monetary policies are entirely responsible….

The most frequent reason for printing more money is the existence of an unbalanced budget. Unbalanced budgets are caused by extravagant expenditures which the government is unwilling or unable to pay for by raising corresponding tax revenues. The excessive expenditures are mainly the result of government efforts to redistribute wealth and income — in short, to force the productive to support the unproductive....

The causes of inflation are not, as so often said, "multiple and complex," but simply the result of printing too much money. There is no such thing as "cost-push" inflation. If, without an increase in the stock of money, wages or other costs are forced up, and producers try to pass these costs along by raising their selling prices, most of them will merely sell fewer goods. The result will be reduced output and loss of jobs. Higher costs can only be passed along in higher selling prices when consumers have more money to pay the higher prices....

Prolonged inflation never "stimulates" the economy. On the contrary, it unbalances, disrupts, and misdirects production and employment.

The inflationary theft is taking place in full public view. Overnight, the Fed's balance sheet grew by about $1.15 trillion, making it about 50 percent larger than it was the day before. As noted by *Commentary*'s Francis Cianfrocca, "That's a scary amount of inflation."

As a reward for its misdeeds and in return for a promise that we will avoid economic catastrophes in the future, the Fed now wants to be granted even more powers. Any similarity to a criminal protection racket is no accident. As the Associated Press said, baldly if blandly: "The Federal Reserve should play an expanded, 'central role' in preventing future financial crises like the one now gripping the country, the U.S. central bank and the Treasury Department said today. The joint statement from the agencies now leading the United States' efforts to end the crisis and lift the country out of recession came as the Obama administration and Congress seek to overhaul the nation's financial structure to avoid future meltdowns."

Over the previous five months, the Fed had already expanded the money supply by about 270 percent and the economy was still tanking. So it upped the dose, in much the same way that the Obama administration heaped on more profligate spending than its predecessor. What didn't work yesterday won't work tomorrow either, but if the Fed gets its way, it will have even more power in the future.


Keep in mind that the Fed was supposedly created in 1913 to protect us from booms and busts, only to have those booms and busts turn out to be longer and deeper than before its creation. The Fed's creation was supposedly opposed by many bankers in much the same way that so many government entities and regulatory agencies have been established — through deceit. It was a version of the tale of Br'er Rabbit, who conned his way into being thrown into the briar patch, where he was safe.

The late economics professor Murray Rothbard recounted in *The Case Against the Fed*:

> Central Banking, in short, was designed to "do for" the banks what the ICC had "done for" the railroads, the Meat Inspection Act had done for the big meatpackers, etc. In the case of Central Banking, the Line that had to be pushed was a variant of the "anti-Big Business" shell game being perpetrated on behalf of Big Business throughout the Progressive Era. In banking, the line was that a Central Bank was necessary to curb the inflationary excesses of unregulated banks on the free market. And if Big Bankers were rather conspicuous and early in advocating such a measure, why this only showed that they were more educated, more Enlightened, and more nobly public-spirited than the rest of their banking brethren.

The Fed's latest inflationary campaign is stunning. Even before its recent infusion of greenbacks, the money stock (M1) had more than doubled in about a year — from $800 billion to $1.7 trillion. A prime reason for all this extraordinary activity is that there is said to be a "credit crunch." Not quite. Credit may be tight, said *Investor's Business Daily* on March 19, but it "isn't close to being in a crunch. Consumer and business loans are running 7.7% ahead of last year, and total commercial bank lending is up about 4.8%."

Meanwhile, Barack Obama is making big spender George Bush look like a cheapskate. President Obama promised that his budget, as Brian Riedl of the Heritage Foundation recalled, "would confront the 'hard choices' that President Bush had avoided by relying on budget deficits. Then he offered a budget that would create as much government debt as every other president from George Washington to George W. Bush — combined.... President Bush's spending spree expanded government by $700 billion. President Obama's budget would expand government by $1 trillion (not even counting the stimulus)."

As huge as the announced Obama budget figures are, they are dwarfed by more realistic projections by the Congressional Budget Office, which don't downplay the probable spending totals and exaggerate economic growth the way the administration did with its estimates. The CBO's figures indicate that the White House low-balled its deficit figures by about $2.3 trillion over a decade. There really is a piper to pay when you spend money you don't have. The CBO estimates that, by the end of the next decade, it will cost more than $800 billion annually just to service the debt.

Even as he was breaking the proverbial bank and, in essence, impoverishing our children, the president employed some verbal sleight of hand by impugning George W. Bush's fiscal irresponsibility (who certainly deserves blame) and saying that his administration is "doing everything we can to reduce that deficit." This audacity is breathtaking. As pointed out by Peter Ferrara of the Institute for Policy Innovation, the deficits

> over the next 10 years that Obama proposed in his budget are not George Bush's deficits. They are the deficits that Obama has proposed, resulting from the $1 trillion in increased spending he adopted in the no-stimulus stimulus bill, and the $400 billion supplemental spending bill he supported and also adopted the following week, and the $275 billion housing bailout he proposed the next week, and the $1 trillion bank bailout plan his Treasury Secretary just proposed this week, and the $638 billion he has proposed as a "downpayment" on a new national health insurance entitlement. The health insurance plan will be the most expensive entitlement of all — serious estimates are that it will cost at least $1.2 trillion or more. Does this sound like he is "doing everything we can to reduce that deficit?"
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> The budget Obama proposes for this year increases federal spending by a fiscally insane 34% over

the budget adopted for last year, with a total of $4 trillion in federal spending, the highest EVER.

Under the Obama budget, the Congressional Budget Office (CBO) projects that the national debt will more than double over the next 10 years from 40% of GDP today to a shocking 82%!

Payment for all of this profligacy will come via higher taxes and more inflation, with the administration spending as if there were no tomorrow and the Fed churning out money to buy Treasury bonds that will make the bill even bigger when that tomorrow does come.

This fits the time-tested prescription for debauching the currency, a term employed by socialist economist John Maynard Keynes almost a century ago. Keynes wrote in *The Economic Consequences of the Peace*: "Lenin is said to have declared that the best way to destroy the capitalist system was to debauch the currency. By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens. By this method they not only confiscate, but they confiscate arbitrarily; and, while the process impoverishes many, it actually enriches some.... Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million is able to diagnose."

All of which would be bad enough, but these economic atrocities are being committed in the name of policies that turn language and logic upside down. These massive increases in debt are being incurred and spending and taxing are being piled on during a recession, which is bound to make recovery longer and harder.

Yet, President Obama asserts that his budget will "lead to broad economic growth by moving from an era of borrow and spend to one where we save and invest." Even the sly Br'er Rabbit wouldn't dare to concoct a whopper like that.

*Photo: AP Images*