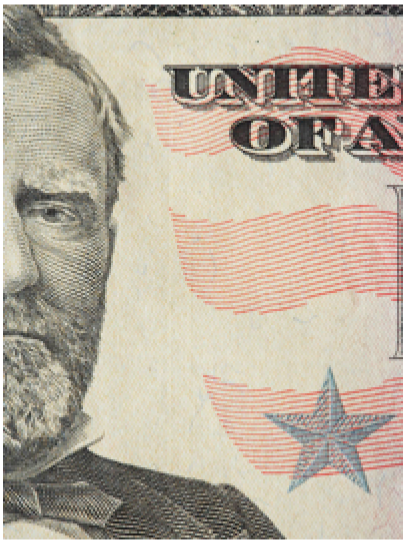
Written by **Alex Newman** on July 1, 2010

Banks, Analysts Warn of Massive Money Printing Ahead



As credit and economic activity continue to contract, analysts are warning of big problems and unprecedented fiat-money creation by the Federal Reserve System in the near future.

"Get ready for the cliff-edge," warned Royal Bank of Scotland credit chief Andrew Roberts in a note to clients late last week. He said "monster" quantitative monetary easing (money printing) is coming and that investors should "Be long gold. Think the unthinkable."

"We cannot stress enough how strongly we believe that a cliff-edge may be around the corner, for the global banking system (particularly in Europe), and for the global economy (particularly in the US/Europe)," Roberts added. "This all sounds somewhat doomsdayish, so we should update how the real economy/banking is panning out for us. It is saying: the end-game approaches."

The note also suggested investors take a look at Fed boss Ben Bernanke's piece "Deflation: Making Sure It Doesn't Happen Here." In it, "Helicopter Ben," who once proposed dropping federal reserve notes from helicopters if necessary, explained: "The US government has a technology, called a printing press, that allows it to produce as many US dollars as it wishes at essentially no cost."

The cost of physically printing the "dollars" may be low — but for a look at the true cost of runaway money creation, see Zimbabwe, the Weimar Republic, and other nations that have debased their currencies and destroyed their economies using the "printing press."

Roberts' "monster" money printing comments grabbed headlines world wide, from CNBC to the*Telegraph*. And other analysts agree.

"With central banks, especially the Fed and the Bank of England, printing money in large amounts ("quantitative easing"), the risks are considerable," noted Tom Burroughes of Wealth Briefing. "Such 'monster' money creation is reckless, in my view, bearing in mind that the US authorities have already hosed financial markets with new money," he said, referring to the RBS note.

"Alas, it appears that some policymakers seem to have forgotten the argument that ultimately, crises that were caused by years of cheap money will not be solved by even more cheap money," Burroughes concluded.

Investment giant PIMCO has also warned of serious central-bank-fuelled inflation in recent days. "Over the longer term, certainly we have to be wary of higher inflation being a 'solution' to persistent deficits everywhere," said portfolio manager Mihir Worah. "[L]ooking further ahead, significantly higher inflation is a real possibility owing first to capacity destruction, and the many unusual measures central banks have taken."

But despite renewed interest in the issue, warnings about massive inflation of the money supply are not new. Austrian economists have been sounding the alarm bell for decades — and been proved correct. And more recently, other prominent analysts have even raised the prospect of hyperinflation in America.

"In the US, we have a totally new school, and it's called the Zimbabwe school," legendary investor Marc Faber told CNBC last year. "And it's founded by one of the great leaders of this world, Mr Robert Mugabe, that has managed to totally impoverish his own country. And that is the monetary policy the US is pursuing." He said U.S. inflation rates could eventually hit 200 percent.

At the moment, as reported by *The New American* recently, several indicators point toward the possibility of short-term deflation. The M3 measure of money in circulation is actually shrinking despite massive new money creation. This is mainly because the velocity of money is very low as banks refuse to lend and businesses and consumers refuse to borrow.

But even if there is some mild "deflation" in prices in the near term (not good in a fiat-money economy), analysts say the authorities' response will be to "stimulate" and print more money, ultimately leading to the possibility of wild inflation.

"Eventually we'll have much higher inflation rates because if deflation comes first, they're going to have even more stimulus packages and even more [money] printing," Faber told Yahoo! Finance in an interview. "It's crazy to even suggest additional stimulus, but that is what the Keynesians believe is the right thing to do. And that will bankrupt Western governments — not just in the U.S., but everywhere."

Other market analysts in Europe have said the Fed is now in a position where it has to print money, no matter what it says publicly. "The response to the coming deflationary maelstrom will be additional money printing that will make the recent [quantitative easing] seem insignificant," noted analyst Albert Edwards with Societe Generale, one of Europe's biggest banks.

Recent "quantitative easing" has been in the trillions of dollars, so making that "seem insignificant" will require quite a feat. But with Bernanke at the printing press helm, it is certainly not out of the question. "Sufficient injections of money will ultimately always reverse a deflation," the Fed chief said. News reports say the theoretical upper limit for the Fed's "easing" has been set at around $5 trillion (although the government has estimated that Americans could already be on the hook for more than $27 trillion).

The problem, however, is not a lack of fiat money "injections." It is systemic. Bernanke can't fix it by flooding the world with paper debt-notes — he can't fix it at all, even though it was caused by the Fed.

The whole Federal Reserve debt-money scheme must be replaced with sound money. As reported by *The New American* magazine in an article entitled "Fed Manipulations in the Crosshairs," the central bank is manipulating every sector of the economy for the benefit of special interests. And even if it was in the hands of better "experts" who weren't rigging the market, the problem of perpetual debt remains: the Fed introduces money into the economy as debt and demands interest on that debt, but where is the money to pay the interest going to come from? The Fed is already owed all the money.

Of course, Fed officials don't think regular people should be commenting on their actions. "For those who want to really know what the best that economics has to offer is, you must look here," wrote

Richmond Fed economist Kartik Athreya condescendingly in a widely publicized critique of bloggers and anyone with an opinion on economics who has not “taken a year of PhD coursework in a decent economics department.”

Ambrose Evans-Pritchard, international business editor for the U.K. *Telegraph*, blasted the Fed apologist’s audacity and raised the question of whether it is "Time to shut down the US Federal Reserve?" The devastation caused by the Fed is easy to see even without a PhD. It should be denounced by everyone, regardless of what Athreya and other cartel spokespeople think about it, lest the central bank finish wrecking the American economy once and for all.