Commodities Skyrocket After Fed Announces $600 Billion More Inflation

One day after the Federal Reserve Bank's "Federal Open Market Committee" (FOMC) announced it would create an additional $600 billion in currency over the next eight months, commodities markets skyrocketed as investors frantically sought hedges against the coming inflation. The Federal Reserve Bank, staffed with Keynesian and a few Monetarist school economists, calls the move "quantitative easing."

Commodities soared two to four percent across the board during trading November 4, with near all-time highs for commodities as varied as gold, white sugar, silver, soybeans, palladium and wheat. Copper, already up significantly over the past year, continued to climb steeply. Meanwhile, the dollar's value as measured against other global currencies, the so-called "dollar index," hit a new low, as did yields on U.S. Treasury notes.

Federal Reserve Chairman Ben Bernanke defended his actions before his chief constituency — Washington, D.C. politicians — in a November 4 column in the *Washington Post*, claiming that

> Although low inflation is generally good, inflation that is too low can pose risks to the economy — especially when the economy is struggling. In the most extreme case, very low inflation can morph into deflation (falling prices and wages), which can contribute to long periods of economic stagnation.

Bernanke claimed in the column that the Federal Reserve would not create hyperinflation and was prepared to reverse its expansion of the money supply.

> We have made all necessary preparations, and we are confident that we have the tools to unwind these policies at the appropriate time. The Fed is committed to both parts of its dual mandate and will take all measures necessary to keep inflation low and stable.

Not all observers agree with Bernanke's optimism over stopping hyperinflatiion of the currency. "I think that the Fed is injecting high grade effective heroin into the monetary system of the country," former Reagan administration Budget Director David Stockman told Bloomberg television November 4, "and one day it is going to kill the patient." Stockman is optimistic, however, that Rep. Ron Paul (R-Texas) will chair the subcommitee of the House of Representatives charged with oversight of the Federal Reserve system beginning in January.

If Bernanke is wrong, as commodities investors and the rest of the market seem to be betting, the United States dollar may look a little more like a Zimbabwe dollar a year from now. And Obama may reprise the role of Jimmy Carter, as played by Dan Aykroyd on Saturday Night Live in November 1978:

> We just have to face the fact that there is simply no way to fight inflation in a capitally-intensive, highly-technological, conflict-riddled, anything-for-a-thrill world of today. That's why, tonight, I want you to try to look for in inflation, an entirely new word: Inflation is our friend.
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> For example, consider this: in the year 2000, if current trends continue, the average blue-collar annual wage in this country will be $568,000. Think what this inflated world of the future will mean — most Americans will be millionaires. Everyone will feel like a bigshot. Wouldn't you like to own a $4,000 suit, and smoke a $75 cigar, drive a $600,000 car? I know I would!
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> But what about people on fixed incomes? They have always been the true victims of inflation. That's why I will present to Congress the "Inflation Maintenance Program," whereby the U.S. Treasury will make up any inflation-caused losses to direct tax rebates to the public in cash. Then you may say, "Won't that cost a lot of money? Won't that increase the deficit?" Sure it will! But so what? We'll just print more money! We have the papers, we have the mints … I can just call up the Bureau of Engraving and say, 'Hi! This is Jimmy. Roll out some of them twenties! Print up a couple of thousand sheets of those century notes!' Sure, all these dollars will cause even more inflation, but who cares? Everyone will be a millionaire!"

The FOMC approved the decision to inflate the currency by $600 billion by a vote of 10-1. Only Thomas M. Hoenig opposed the inflationary decision.