A dialogue on the Fed's bailout during 2007-2010 and possibility of hyperinflation

by Victor Christianto*
*http://www.sciprint.org, http://independent.academia.edu/VChristianto, email: victorchristianto@gmail.com

Abstract
The present paper consists of a dialogue with Jacky Mallett about the Fed's bailout during 2007-2010 and possibility of hyperinflation in the near future. According to the news (10/14/2013), a number of large investors have sold their stocks massively. See http://www.moneynews.com/MKTNews/billionaires-dump-economist-stock/2012/08/29/id/450265?PROMO_CODE=1393F-1. Perhaps we can agree with one thing from this news, that perhaps the Fed has printed too much money in recent years, so its full effect will take place in the form of massive hyperinflation. In other paper, we have reported that the Fed has issued no less than sixteen trillion of us dollars to several banks.

Introduction
The present paper consists of a dialogue with Jacky Mallett about the Fed's bailout during 2007-2010 and possibility of hyperinflation in the near future, which can be viewed at https://www.researchgate.net/post/Will_there_be_a_massive_hyperinflation_soon_in_the_USA_because_the_FRB_has_already_printed_too_much_money_out_of_thin_air. According to the news(10/14/2013), a number of large investors have sold their stocks massively. See http://www.moneynews.com/MKTNews/billionaires-dump-economist-stock/2012/08/29/id/450265?PROMO_CODE=1393F-1. I agree with one thing from this news, that perhaps the Fed has printed too much money in recent years, so its full effect will take place in the form of massive hyperinflation. In other paper, we have reported that the Fed has issued no less than sixteen trillion of us dollars to several banks. See our paper in http://vixra.org/abs/1307.0097. What do you think? Is that hyperinflation possible to happen?

Dialogue

1. **Jacky Mallett**
   No.

   And with reference to the Federal Reserve's statistics here,

   http://www.federalreserve.gov/econresdata/statisticsdata.htm

   would you mind pointing out the statistical series that shows a $15 trillion increase in any money supply measure? That's actually more money than is in the entire US Banking system at this present time.

2. **Victor Christianto**
   Thank you Jacky for your answer. According to a report there was a partial audit to the Fed in 2011 as part of Dodd-Frank reform, the result of that audit is that the Fed has given soft loans to

several banks at the amount of around sixteen trillions usd during 2007-2010. See my paper http://vixra.org/pdf/1307.0097v2.pdf.

3. **Victor Christianto**
   Jacky, you can find a document in the Fed site itself telling about the audit of the board, see http://www.federalreserve.gov/oig/files/Dodd_Frank_09.28.2011.pdf. But the revealing result about emergency loans during 2007-2010 is not exposed there.

4. **Victor Christianto**
   In other site you can find more details info that the U.S. Federal Reserve gave out emergency loans to US and foreign financial institutions during dec. 1 2007 to july 21 2010 at amount of $16.1 trillion. http://www.teamliquid.net/forum/viewmessage.php?topic_id=246411

5. **Jacky Mallett**
   If I lend you $1 trillion for a week, and then rollover the loan every week for 52 weeks, how much have I lent you? $52 trillion, or $1 trillion?

   You specifically claimed the **money supply** had increased by $15 trillion - would you care to provide actual data to support your claim?

6. **Victor Christianto**
   I think we have different opinions. What i say in the introduction of the question is that the Fed has issued no less than fifteen trillion of us dollars to several banks. I have given the link where you can read the report about the Gao audit to the Fed. I dont say that it implies increase in money supply.

7. **Victor Christianto**
   Jacky, you may have a point here, although we have different opinion on this issue. According to simple math fifty dollars loan times ten times roll over is five hundreds dollars. But even if we breakdown the sixteen trillion dollars of emergency loans given by Fed during 2007-2010 by components, the result is still revealing. For example, using your logic, if we assume the PDCF component is rolledover loan, which is 8.951 trillions. Then this number is divided by 16.115 trillions, the result is 55.545% of the emergency loans is not a rolledover loans. See the breakdown data of the emergency loans in http://www.teamliquid.net/forum/viewmessage.php?topic_id=246411.

   I use this assumption to simplify the argument. The assumption that pdcf loan is rolledover loan can be found in the following url: http://www.dailypaul.com/252915/1600000000000000-in-secret-bailouts.

   Perhaps you should better take a look at teamliquid.net link that i give, before insisting on time series data. Best wishes

8. **Victor Christianto**
   Errata. I mean that 55.545% is pdcf loan, then 44.5% of those emergency loans are perhaps not rolledover.

9. **Jacky Mallett**
   I think you need to look at the Federal Statistical data, and confront the very simple fact, that $15 trillion is more money than currently exists in the entire US monetary system - and that simple data point is really all that's needed to answer your original hypotheses firmly in the negative.

   After that it gets quite technical I'm afraid, since the Federal Reserve was actually lending asset money/base money, rather than liability deposit money, and total asset money in the system iirc is somewhere in the $2-3 trillion range (i.e. considerably less than $15 trillion). I'm happy to guide you through those issues, if you have a genuine desire to understand how all this works, but I would strongly recommend you start by getting down and dirty with the H.6 and H.8 statistical series.

   When the facts contradict a theory - why that's when science just starts getting exciting!

10. **Victor Christianto**
    Dear Jacky, sorry I don't have time to dig statistical series (it is also beyond my scope of interest). Perhaps you're right that there is discrepancy here with the available money. But that is what makes this issue interesting.

    Btw there is another 2011 report by James Felkerson (included here), available from http://www.levyinstitute.org/pubs/wp_698.pdf. In his report it is found that the Fed bailout during 2007-2010 is not 16.1 trillions but more than 29 trillions. That number is even more breathtaking.

    see also comments by Prof. L. Randall Wray on this issue:
    http://www.economonitor.com/lrwray/2011/12/09/bernanke%E2%80%99s-obfuscation-continues-the-fed%E2%80%99s-29-trillion-bail-out-of-wall-street/

11. **Jacky Mallett**
    It takes an entire 5 minutes to look at the data - let me merely observe that if you're afraid of time series, you've really picked the wrong field.

    Wray - if you read him - is quoting Bernanke making exactly the same point I did about summing up the total of rolled over debt ($1.2 trillion total money in case you were curious). He then decides to ignore that point for what can only be judged to be political reasons. After all "breathtaking" and entirely false figures are a far easier way to attract attention, than actually trying to understand what really happened.

    This kind of argument is the economic equivalent of summing up the total planetary rainfall for the last 100 years and then predicting that everybody is going to drown from the resulting flood.

12. **Victor Christianto**
    Jacky, i got your point, perhaps that amount is aggregate sum of emergency loans which was rolled over several times. Btw i am not against time series, i just dont know how to find data from 2007-2010 from Fed database. I only find that Felkerson already shows some weekly data of Fed loan progress during that time, mostly around 2008.

13. **Jacky Mallett**
    So essentially this is one of the traps, current economic theory has for the unwary, since it doesn't provide us with an adequate explanation for the monetary system. From the main Federal Reserve site above, the two series of interest are the H.6 Money Stock, and the H.8 Assets and Liabilities of the US Banking system:

    http://www.federalreserve.gov/releases/h6/current/h6.htm
    http://www.federalreserve.gov/releases/h8/current/

    The nice people at the Federal Bank of St Louis also provide a separate site where you can get charts of all the different series. Then it gets interesting.

    There are essentially two types of money in the system, all our bank deposits (a liability), and physical cash and the banks' deposits with other banks including reserves at the central bank (which for banks are an asset.) It helps at this point to know that if you deposit physical cash (asset) at a bank, a matching bank deposit(liability) is simultaneously created, so if you simply add physical cash to bank deposits (as many economists do), then the physical cash is being double counted.

    So if we look at the Q.E. money which was created by the Fed, that is asset money:

    http://research.stlouisfed.org/fred2/series/AMBNS

    and you can see clearly from that graph when it's being injected. According to the current textbook explanation of the banking system (which turns out to not only be incorrect, but in fact falsifiable), what should happen if asset money increases like that is a multiplier increase in bank deposits, triggering hyper-inflation. Except of course, that that hasn't happened, viz:

    http://research.stlouisfed.org/fred2/series/M2

    This is M2, which is approximately total bank deposits in the system - and as you can see it just basically increases over time, independently of whatever the Fed is doing.

    There are several reasons for that. The main one being that central bank reserves are no longer really used to control the expansion of the system, so although the TARP intervention did remove any limit there might have been, in actuality the expansion is being simultaneously throttled by the Basel Capital limits, and those are dominating. It can be anticipated that there will be an increase in monetary expansion, once the banks have finished increasing their basel capital holdings to meet new regulations, and that is I suspect when we'll have another credit bubble.

    So that's an abbreviated overview of what's going on. If you want to know more, I can send you some papers I've just finished.

14. **Victor Christianto**
    Jacky, thank you very much for your explanation. Sorry i cannot get into details as much as you

do. But i think i want to find statistical series of pdcf given by the Fed during period 2007-2010, because from Felkerson,s report it seems that pdcf which is discount window for primary dealers is the significant component of emergency loans, about 30% of total emergency loans.

Yes i read somewhere about M1 and M2 concept of monetary policy, but not sure if it has anything to do with emergency loans given by the Fed to certain financial institutions. I tried to read GAO audit report but they only say that the peak lending from the Fed is about 1.1 trillion. So there are different opinions of what the Fed did in the past: 1.1 trillion (Gao), 16.1 trillion (senator), 29 trillion (Felkerson). I think the assumptions made during calculation and summing up raw data affect the conclusions.

I read that you published paper about fractional reserve bank, you can upload your files here or just give the url. I also read some articles and books saying that the frb concept allows banks to create money out of thin air, just like The Fed did. What is your opinion?

15. **Victor Christianto**
Ps: i just visit one url that you gave about st louis monetary base data. It says that there is rapid increasing qe from 2009 until now. At last month the number became 3.5 trillion (2013-09). Do you think that it will not trigger hyperinflation because of quantitative easing? Let alone the emergency loans since 2007. http://research.stlouisfed.org/fred2/series/AMBNS

16. **Jacky Mallett**
When the federal reserve makes a loan, it transfers money to the recipient which has to be a qualified financial institution, and receives something - typically a financial instrument like a treasury or a securitized loan in return. Both of these are forms of debt of course. That money is asset money, and there is currently about $3.5 trillion in the system.

The best way to visualise this is to think of a loan as a network flow of money. So the bank received asset money, and the Fed received a financial instrument that represents a loan in return. Loans have to be repaid, and so over time, the Fed gets the money it lent back with interest. That's the network flow back.

If the Federal reserve did nothing else, it would eventually drain the money back out of the banking system, to prevent that it pays interest on bank reserves back to the banks. It's a two-way flow, and it effectively doesn't touch the rest of the economy.

One final comment on hyper-inflation. Hyper-inflation is a consequence of a customer bank deposit (liability) expansion - and that's not what you're seeing in that graph. If you look at the other chart, you'll see there is no correlation between the rate of expansion between the total money in the banking system (M2 approximately) and the asset money being created by Q.E. There used to be, but there isn't any more.

Concluding remarks

The present paper consists of a dialogue with Jacky Mallett about the Fed's bailout during 2007-2010 and possibility of hyperinflation in the near future. According to the news (10/14/2013), a number of large investors have sold their stocks massively. See

Victor Christianto, http://www.sciprint.org, http://independent.academia.edu/VChristianto

http://www.moneynews.com/MKTNews/billionaires-dump-economist-stock/2012/08/29/id/450265?PROMO_CODE=1393F-1. Perhaps we can agree with one thing from this news, that perhaps the Fed has printed too much money in recent years, so its full effect will take place in the form of massive hyperinflation. In other paper, we have reported that the Fed has issued no less than sixteen trillion of us dollars to several banks.

Version 1.0: 29th October, 2013.
VC, victorchristianto@gmail.com

References:

1. Felkerson, J. (2011) $29,000,000,000,000: A detailed look at the Fed's bailout by funding facility and recipient. Working Paper no. 698, Levy Economics Institute of Bard College. URL: http://www.levyinstitute.org/pubs/wp_698.pdf
2. Minsky, Hyman P., Ph.D. (1986) “Stabilizing an Unstable Economy,” Hyman P. Minsky Archive. Paper 144. URL: http://digitalcommons.bard.edu/hm_archive/144/