# Bernanke Goes All In To Increase Inflation

September 13, 2012 - If anything can be said about Federal Reserve Chairman Ben Bernanke, it is that he appears to be a one-trick-pony. He's come up with and continues to swear by financial policies that have been tried and repeatedly failed throughout history. His answer for pretty much any financial crisis has been the same for three years now. When the market isn't performing the way that he would like it to, he simply prints more money. Today, for the third time in three years, he did it again and by the close of the market, inflationary winds were already blowing.

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Today, the FED announced that it was going to pump billions of dollars into the economy. It isnâ€™t doing this by creating new markets or helping existing businesses. Instead, it is going to buy mortgage backed securities at a rate of $40 Billion per month, with no announced end date. The reason for the move is because of slow job growth. The FED believes that the program will drive interest rates lower. There are several big problems with this plan.

First, interest rates are at record lows already. Yet, there has been little impact on job growth. Because of those record low rates, there is very little that the FED can do to lower them further. It is also worth noting that over the past several years, interest rates have had far less impact on job growth than government regulations. North Dakota currently has an unemployment rate of less than 4%. It also has business friendly laws. By contrast, California has unemployment that is over 10%. California has repeatedly been voted the state with the least friendly business environment.

Second, simply pumping money into the economy does nothing other than increase prices. This is especially true for the prices of commodities that are heavily used in manufacturing and agriculture. Forcing the cost of raw materials up is much more likely to impede employment growth than it is to help it. The market's reaction to the FED's announcement reflected this reality. By the end of the day, the price for oil was more than $98 per barrel. That was an increase of $1.31

today alone.

Third, the FED announcement also contained a statement that they intend to hold interest rates at or close to their current levels until well into 2015. That means that the FED has no intention of doing anything the control inflation.

The impact of this is likely to be felt most by people in the middle class. Inflation that is caused this way is nothing other than another tax; although it is well hidden and can't be pointed to in any specific piece of legislation. But over the past few years, we've all seen fuel prices double and the price of food skyrocket. Today's announcement simply means that we are all in for more of the same.

byJim Malmberg
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