

Greenspan creates new hyperinflation danger

by Richard Freeman

Federal Reserve Board Chairman Alan Greenspan is printing new dollar bills, on behalf of his banker and hedge fund operator friends, like there's no tomorrow. He is rushing liquidity, in the form of dollars bills and Fed lending through the "federal funds" window, into the banking system, in order to rescue several large commercial and investment banks, some of which are technically insolvent, having come out on the wrong side of large speculative bets. He is also attempting to liquefy the derivatives, junk bond, collateralized securities, and several other markets. The banking system has heavily lent to or taken derivatives positions in these markets, and saving them, many of which are filled with speculative paper, has become Greenspan's top priority, as the way to "save" the banking system as a whole.

Greenspan is making the same errors of judgment, and forcing the United States onto the same path as the 1921-23 Weimar German hyperinflation.

During the seven-week period from the week ending Aug. 29 to the week ending Oct. 19, Greenspan and the Fed have cranked up the presses, printing up \$9.8 billion worth of new dollar bills, called the "currency in circulation." During this period, the currency in circulation has grown at an explosive annualized rate of 16.4%. During the same period, M1 money supply, of which currency in circulation is one part, has grown at a 12.9% annualized rate; M2 has grown at a 16.8% annualized rate; and M3, the broadest measure, has grown at a 17% annualized rate.

Table 1 shows the outstanding levels for currency in circulation and for the different primary measures of money

TABLE 1

Seven-week growth rate of money supply

(billions \$)

	Currency in circulation	M1	M2	M3
Aug. 31, 1998	443.0	1,057.4	4,241.0	5,710.8
Oct. 19, 1998	452.8	1,075.8	4,337.3	5,841.8
Seven-week average (annualized basis)	16.4%	12.9%	16.8%	17.0%

Source: Federal Reserve Board of Governors, *EIR*.

supply; it also shows the growth rate for the period, on an annualized basis.

The growth of currency in circulation is significant, because it occurs through what are called "Treasury pass-throughs." That is, the Federal Reserve purchases U.S. Treasury debt, by monetizing it, i.e., printing new bills. There have been several "Treasury pass-throughs" in the last few weeks.

(M1 money supply consists primarily of currency in circulation plus the funds in checking accounts. The reason that, during the seven-week period, currency in circulation grew at a faster rate than M1, is that the level of funds in checking accounts declined. M2 consists of M1, plus savings accounts, money market funds, and small-denomination time deposits that are smaller than \$100,000—these are usually Certificates of Deposit of less than \$100,000. M3 consists of M2, plus large-denomination time deposits, institutional money market funds, Eurodollar deposits, and corporate repurchase agreements.)

The new dollar bills are not intended to help the real, physical economy. Consider that, even using the fake measure of Gross Domestic Product, *unadjusted for inflation*, for the first nine months of 1998, U.S. GDP is growing at only a 4.5% annualized rate; thus, currency in circulation is growing three-and-one-half times as fast as the rate of GDP. More than three-quarters of the increase in currency in circulation is being used to save Greenspan's banker and hedge fund allies.

Pumping in through the federal funds window

In addition to printing new dollar bills, the Fed is also adding reserves to the banking system through the federal funds window. The Fed does this through "repurchase agreements," by which it buys U.S. Treasury bills from U.S. banks, giving the banks cash for the T-bills. The Fed usually buys T-bills from the banks on a 24- to 48-hour basis; after which period, the banks repurchase the Treasury bills (hence the name). However, the Fed can keep rolling over the repurchase agreements, thereby pumping liquidity-reserves into the banking system on a semi-permanent basis.

On Nov. 3, the Fed added a total of \$4.410 billion of reserves into the banking system, through repurchase agreements; on Nov. 4, the Fed added \$2.535 billion into the banking system, through repurchase agreements. On the whole, for the last seven weeks, the Federal Reserve has averaged a weekly level of repurchase agreement-infusions outstanding of \$3-6 billion.

With the repurchase agreements, and the printing of new dollar bills, Greenspan has been a busy boy. But his actions threaten the stability of the U.S. financial system. Hyperinflation will render the U.S. currency increasingly worthless, while feeding the asset bubble in stocks, derivatives, and so on. That bubble is sucking the physical economy dry, and will become ever-more unsupportable. Obsessed with saving his banker friends, Greenspan is ignoring this reality.