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The Fed Printing More Money Will Make Things Worse

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Today, Chairman Ben Bernanke gave a big speech on the Federal Reserve's next move in Boston. During his speech, Bernanke announced yet another round of "quantitative easing". In plain English, this means that the Fed will fire up their printing presses to create more money. This likely won't end well.

The current economic crisis is far from over. Last Friday, the Labor Department reported that the unemployment rate remained at a high 9.6 percent [1] in September. The number of new people filing for unemployment insurance rose to a higher-than-expected 462,000 [2] last week. But the last thing we need is the Federal Reserve to "fix" things.

Hasn't the Federal Reserve done us enough harm? Countless studies [3] have confirmed that the Federal Reserve played a major role in the financial collapse by artificially keeping interest rates low and inflating the money supply in the economy. Inevitably, the long period of unsustainable negative real interest rates gave individuals a tempting incentive to borrow from the banking system. Unfortunately, the artificially low interest rates misled millions of people to take out loans that they could not afford to pay back once the interest rates eventually rose.

Even a Fed official recently admitted that the Fed played a role in the economic meltdown. According [3] to the President of the Federal Reserve Bank of Kansas City, Thomas Hoenig:

Monetary policy is a useful tool, but it cannot solve every problem faced by the United States. In trying to use policy as a cure-all, we will repeat the cycle of severe recession and unemployment in a few short years by keeping rates too low for too long... I wish free money was really free and that there was a painless way to move from severe recession and high leverage to robust and sustainable economic growth, but there is no short cut.

As expected, government's efforts to recover the economy have made the situation far worse. Cato Institute Scholar James Dorn states [4] that:

No one at the Federal Reserve, Treasury or Council of Economic Advisors foresaw the crisis. When the crisis hit, the predictions were that unless the government dramatically increased its role in the economy, the U.S. would fall off a cliff. In reality,

after billions in stimulus spending, unemployment is still unusually high, growth is sluggish, and uncertainty prevails.

We must change course. No matter what the Fed does, the economy will suffer for a period of time. However, the Fed must step back and finally allow the recession to run its course. It will be a costly and painful process but Fed action will only make the situation worse in the long-run.

Financial economist Peter Schiff who predicted [5] the current recession to a T says that we haven't seen anything yet. Schiff states [6]:

Many now claim that government deficits and Fed easing prevented a repeat of the Great Depression. From my perspective, calamity was not averted but merely delayed. The price for the reprieve will be a far more severe downturn, which I now think will surpass the Great Depression.

In the end, the Federal Reserve printing more money will amplify our economic woes. Unless we change direction, the dollar will likely collapse [7], millions more will be out of their jobs and our standard of living will continue to plummet. In 2002, Ben Bernanke earned the nickname "Helicopter Ben" by stating [8] that:

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.

He then referred to a statement by Milton Friedman claiming that the government could defeat deflation by dropping money out of a helicopter. It seems that Bernanke is warming up his helicopter to increase inflation by pumping more money into the economy. In order to experience a true lasting recovery, the Federal Reserve must stop tampering with the market and allow the free market to self-correct itself.

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Links:

[1] <http://www.bls.gov/news.release/empstat.nr0.htm>

[2] <http://www.businessweek.com/news/2010-10-14/u-s-economy-trade-gap-grows-jobless-claims-rise.html>

[3] <http://www.lewrockwell.com/woods/woods111.html>

[4] [http://www.cato.org/pub_display.php?pub_id=12206&utm_source=feedburner&utm_medium=feed&utm_campaign=Feed: CatoRecentOpeds \(Cato Recent Op-eds\)&utm_content=Google Reader](http://www.cato.org/pub_display.php?pub_id=12206&utm_source=feedburner&utm_medium=feed&utm_campaign=Feed%3A+CatoRecentOpeds+(Cato+Recent+Op-eds)&utm_content=Google+Reader)

[5] <http://www.youtube.com/watch?v=2I0QN-FYkpw>

[6] <http://www.campaignforliberty.com/article.php?view=1154>

[7] <http://www.campaignforliberty.com/article.php?view=1154&discuss=1#discuss>

[8] <http://www.campaignforliberty.com/blog.php?view=36553>