

Sterilizing Money at the QE Corral

By [The Mogambo Guru](#)

11/12/10 Tampa, Florida – There are a lot of intricacies in the Federal Reserve’s evil ways, especially as concerns creating \$900 billion in the next six months in another round of quantitative easing, and one of them is explained by Daniel R. Amerman of DanielAmerman.com. He says, “There is something else essential for investors and savers to understand about the process which the Federal Reserve has just outlined. The Federal Reserve is not directly purchasing treasury bonds from the US government. Instead, US banks are purchasing the bonds from the US Treasury to fund the deficit, and then selling an equal amount of other bonds (likely at a nice profit) to the Federal Reserve.”

If you are a normal person, then you are positively terrified by the prospect of inflation, which means that you are terrified of the Federal Reserve creating so much, so incredibly much, so staggeringly much, so unbelievably much money – which is to be almost \$900 billion in the first six months of 2011 – because a lot less monetary insanity than this gigantic clot of extra money caused ruinous inflations in stocks, inflations in bonds, inflation in consumer prices, inflation in housing, inflation in the sheer suffocating size of government and severe, bankrupting macroeconomic distortions and mal-investments.

Obviously, then, I am on to something when I say that “Inflation is the worst thing that can happen, other than the Earth being invaded by creatures from outer space to make us their slaves, forcing us to mine di-lithium crystals on some barren planet in the faint, farthest reaches of the Federation of Planets.”

So, besides keeping an eye on the skies for alien invaders from outer space and watching the neighbors to see what nefarious schemes they are plotting against me, I keep tabs on the money supply.

Mr. Amerman, whom I now suspect of being in concert with my wife to cause me to have a heart attack and die on the spot from the sheer horror of it all, writes that “by the end of the Federal Reserve’s mortgage security purchase program (the previous ‘quantitative easing’), about 10% of the approximately \$12 trillion in US banking system assets consisted of sterilized money held at the Federal Reserve.”

Sterilized money? What’s that? It sounds a lot like the end-days of my relationship with Susan, when she suddenly announced that, from now on, if I wanted to kiss her, I had to first sterilize my lips with boiling water. As you can probably guess, things went downhill pretty fast after the first few times! Parenthetically, looking back on it, it was not worth it.

My amorous misadventures aside, the answer is that “while a (desperate) central bank wants to be able to spend money without limits, letting that new money escape into the general money supply can lead to major inflation in a hurry. So with the previous rounds, the Fed and ECB each

used their ‘sterilization’ powers to essentially put a corral up around the new money, and keep it from escaping out into the economy.”

He goes on that “because the banks can’t really spend their ‘sterilized’ money, but must have an ever larger share of their balance sheet assets consist of those economically meaningless excess reserve balances.”

He figures that by June of next year this would mean “about 16% of total US bank assets would consist of ‘sterilized money’, i.e. balances at the Federal Reserve that can’t be used anywhere else.”

I immediately saw this as a chance to get my own economic house in order! At breakfast, I happily told the kids that I was going to quadruple their allowances! This wonderful news made them, as they said, “Happy for the first time in our miserable lives!”

I admit that I positively reveled in smug self-satisfaction as they fell all over themselves apologizing for hating my guts, and apologizing about how they regret calling me a horrible, stingy, miserly, gold-bug, silver-bug, worthless loser of a father who spends every dime on gold, silver and oil stocks so that I can make a lot of money when their prices shoot “to the moon” when the monetary insanity of the Federal Reserve creating so freaking much money, so that the insane Obama administration can deficit-spend almost \$2 trillion a year, makes inflation in consumer prices start climbing to hyperinflationary levels.

After I was finished eating and having had enough basking in the fawning adulation, I broke it to them that while I was indeed quadrupling their allowances, being the generous, loving father that I am, I was “sterilizing” the money by making them keep it in my bank account.

Well, their reaction was immediate outrage, as compared to the lack of it demonstrated by the silly “journalists” (in every sneering, disrespectful, pejorative use of the word) of the mainstream media and neo-Keynesian econometric halfwits infesting the majority of the nation’s universities at such a monetary monstrosity.

Their loud hostility was not quelled one iota by my gently reminding them that the Federal Reserve was doing this same thing right now, and the Fed’s bank account has risen by more than a trillion dollars in one year, and which is apparently okay with the “silly ‘journalists’ (in every sneering, disrespectful, pejorative use of the word) of the mainstream media and neo-Keynesian econometric halfwits infesting the majority of the nation’s universities” as mentioned so prominently in the previous paragraph.

Well, what started out as a delightful breakfast with the family soon devolved into a distressing shouting match of sorts, with the kids telling me, “We hate you more now than we ever hated you before!” me yelling at them, “Morons! If you knew the kind of inflationary horror that is going to happen to us because of the Federal Reserve creating so much money, then you would happily give up one of your three generous portions of cold gruel per day to let me buy MORE gold, silver and oil!” and my wife pleading, “Everybody please shut up and calm down!” to no avail.

It was scene of insane pandemonium for awhile, which we can all agree shows the degree of insanity rampant in the world today, as is this sterilized quantitative easing, which Mr. Amerman says is “an insane strategy for a government that is desperately trying to revive the private sector economy, which is one of the reasons I find further sterilization to be unlikely.”

With all due respect to Mr. Amerman, I figure that the money was not actually sterilized at all, and although it did not enter the economy as a result of business and consumer loans, it entered into the economy via government deficit-spending.

Which, if either, is worse than the other from an economic standpoint is, of course, a matter for rigorous theoretical analysis, which means that it won't come from me because it sounds like work, and I hate even the word “work,” even if I could do the analysis, which I can't because I haven't a clue how to even start.

But I like making money without working, and I know (thanks to the Austrian Business Cycle Theory and 4,500 years of history) that buying gold, silver and oil will make me a lot of money because of all of this monetary and fiscal insanity.

And all without lifting a finger, which is so deliciously brainless that I say, “Whee! This investing stuff is easy!”