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Janet Yellen's 78-Month Plan For The National Monetary Policy Of The United States

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Past the Point of No Return

Adventures in depravity are nearly always confronted with the unpleasant reality that **stopping the degeneracy is much more difficult than starting it**. This realization, and the unsettling feeling that comes with it, usually surfaces just after **passing the point of no return**. That's when the cucumber has pickled over and the prospect of turning back is no longer an option.

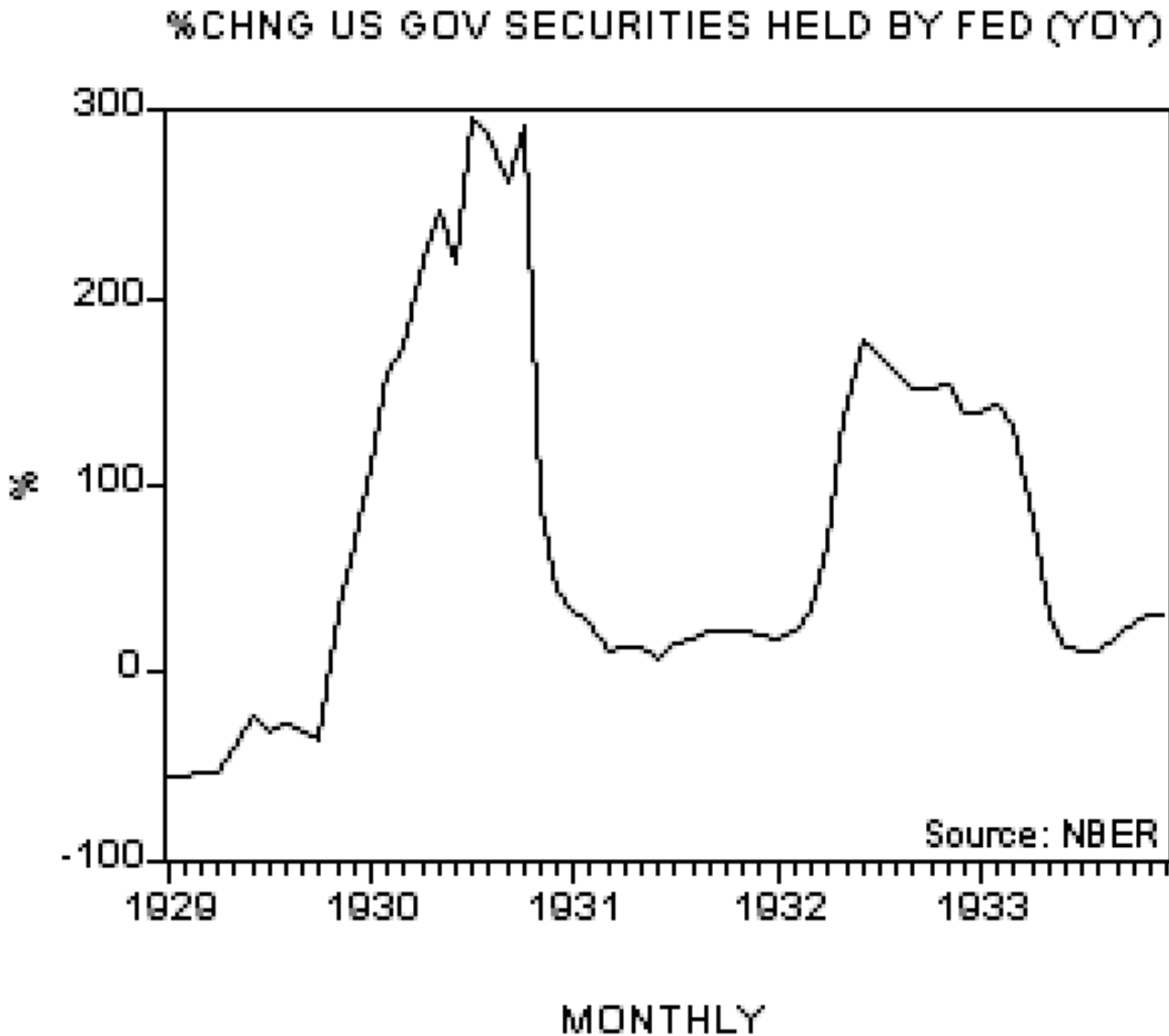


[6]

Depravity and bedlam through the ages. The blue barge of perdition in the lower middle ferries the depraved and degenerate to their final destination, a small slice of which can be glimpsed above... [PT]

In late November 2008, Federal Reserve Chairman Ben Bernanke put in place a *fait accompli*. But he didn't recognize it at the time. For he was blinded by his myopic prejudices.

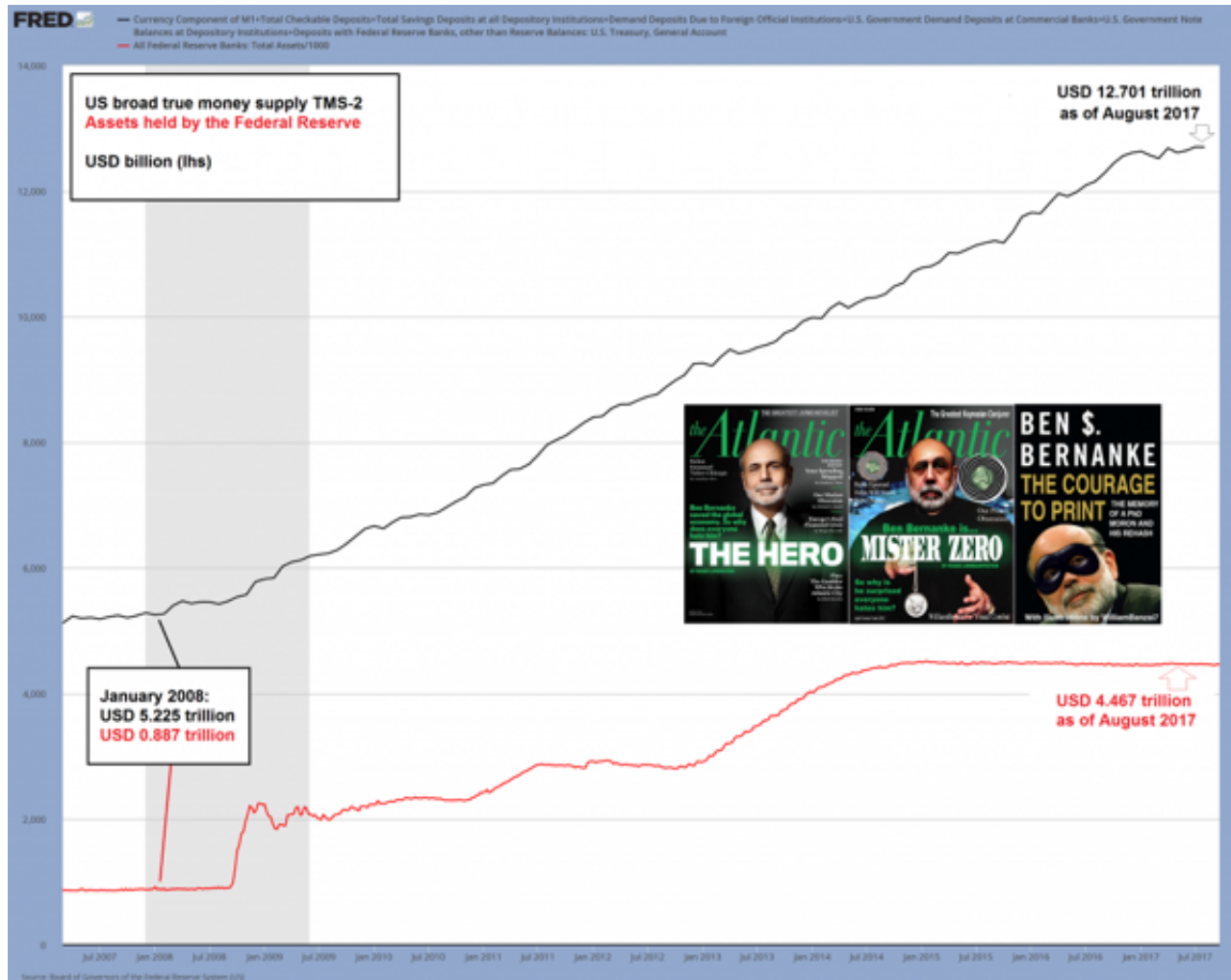
Bernanke, a self-fancied Great Depression history buff with the highest academic credentials, gazed back 80 years, observed several credit market parallels, and then made a preconceived diagnosis. After that, he picked up his copy of *A Monetary History of the United States* by Milton Friedman and Anna Schwartz, turned to the chapter on the Great Depression, and got to work expanding the Fed's balance sheet.



Now here is something all those “Great Depression experts” always neglect to mention: the Fed’s holdings of government securities expanded by more than 400% between late 1929 and early 1933. Friedman’s often repeated assertion that the Fed “didn’t pump enough” in the early 1930s – which is held up as the gospel truth by nearly everyone – is simply untrue. It is true that the money supply collapsed anyway – but not because the Fed didn’t try to pump it up. Many contingent circumstances mitigated against money supply expansion: too many banks went bankrupt, taking all their uncovered deposit money to money heaven, as there was no FDIC insurance; only 50% of all banks were even members of the Federal Reserve system; no-one wanted to borrow or lend in view of the massive economic contraction and the Hoover administration’s ill-conceived interventionism. We can also tentatively conclude that the economy’s pool of real funding was under great pressure, which was exacerbated as a result of the trade war triggered by the protectionist Smoot-Hawley tariff enacted in June 1930. The collapse in international trade and investment meant that the pool of savings of the rest of the globe was no longer accessible. [PT]

Bernanke's dirty deed commenced with the purchase of \$600 billion in mortgage-backed securities, using digital monetary credits conjured up from thin air. By March 2009, he'd run up the Fed's balance sheet from \$900 billion to \$1.75 trillion. Then, over the next five years, he ballooned it out to \$4.5 trillion.

All the while, Bernanke flattered his ego with platitudes that he was preventing Great Depression II. ***Did it ever occur to him he was merely postponing a much-needed financial liquidation and rebalancing?*** Did he comprehend that his actions were distorting the economy further and setting it up for an even greater bust?



US broad true money supply TMS-2 and assets held by the Federal Reserve... and the perpetrator seen through the lens of various observers. [PT] – click to enlarge.

Normalization Principles and Plans

Perhaps Bernanke understood exactly what he was doing. As many readers have insisted

over the years, the Fed works for the big banks and big money interests. Not Main Street. Regardless, the Fed recognizes that the optics of its \$4.5 trillion balance sheet have become a bit skewed. **The Great Recession officially ended over eight years ago. Why is the Fed's balance sheet still extremely bloated?**

On Wednesday, Fed Chair Janet Yellen attempted to clarify what the Fed is going to do about it. Following the two day Federal Open Market Committee meeting, the Fed issued its customary statement [8]. Therein, it mentioned that balance sheet normalization would be initiated in October. The referenced implementation note [9] offered details on how the Fed will go about contracting its balance sheet:

"Effective in October 2017, the Committee directs the [Open Market] Desk to roll over at auction the amount of principal payments from the Federal Reserve's holdings of Treasury securities maturing during each calendar month that exceeds \$6 billion, and to reinvest in agency mortgage-backed securities the amount of principal payments from the Federal Reserve's holdings of agency debt and agency mortgage-backed securities received during each calendar month that exceeds \$4 billion."



Ms. Yellen mentioned that the run-down of the balance sheet was going to be akin to "watching paint dry" – this is certainly true, considering its current size of around \$4.5 trillion and the

relatively small initial monthly drawdowns of \$10 billion. But reductions by \$50 billion per month are quite sizable and the markets are very likely to anticipate the effects at some point. In other words, this exercise in quantitative tightening could get a lot more exciting rather sooner than expected. [PT]

Moreover, if we correctly interpreted the Fed's June 2017 Addendum to the Policy Normalization Principles and Plans ^[10], the Fed plans to increase this initial \$10 billion balance sheet contraction every three months by increments of \$10 billion until they reach \$50 billion per month. Then they'll let it ride until they're back to normal; though, it is unclear what the Fed believes normal is. What to make of it?

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By our back of the napkin calculation, starting with October's initial \$10 billion reduction, then incrementally increasing the reduction by \$10 billion each quarter until hitting \$50 billion per month, and then contracting by \$50 billion a month from there, **it will take 78-months for the Fed to get its balance sheet back to \$900 billion (i.e., where it was before Bernanke's act of depravity). Thus, in roughly six and a half years, or in March 2024, monetary policy will be back to normal.**

If you recall, the Soviets operated under five-year plans for the development of the national economy of the USSR. ***Now, Yellen, an ardent central planner and control freak, has charted the Fed's 78-month plan for the national monetary policy of the United States. Have you ever heard of something so ridiculous?***

However, while the Soviets were zealous believers in their plans, we suspect the Fed will be as committed to the cause as a fat person to a New Year's Day diet. **In truth, the Fed will never, ever reduce its balance sheet to \$900 billion. They won't even get close; they are well past the point of no return.**



In the early 1930s the Soviet planners under Stalin had a great idea: why not fulfill the 5 year plan in four years? This showed that nothing was impossible for the “new Soviet man” and two plus two was henceforth five. As Marxists will explain, this is in perfect keeping with the rules of polylogism. Even the laws of mathematics must bend to proletarian logic. [PT]

For starters, financial markets will not allow the Fed to execute its 78-month tightening program according to plan. At some point, credit markets will have a severe reaction. This would ripple through stock markets and nearly all assets that are propped up by cheap credit.

What’s more, if this doesn’t panic the Fed from its master 78-month monetary policy plan, the economy will. No doubt, at some point within the next 78-months the U.S. economy will shrink. ***What will the Fed do then? Will they continue to tighten in the face of a contracting economy?***



Guess who's lying in wait... it will be found out that a creature long held to be extinct was merely hibernating in its cave, sharpening its claws. [PT]

No way. They will ease, and then they will ease some more. They won't stop until it is near impossible for an honest person to work hard, save their money, and pay their way in life. Many fine fellows were already pickled over by the Fed in the last easing cycle and lost their way. More are bound to follow.

Ben Bernanke Ben Bernanke Business Degeneracy Degenerate energy levels
Depravity FDIC fed Federal Reserve Great Depression Hoover administration
Janet Yellen Main Street Milton Friedman Monetary Policy Money Supply Open
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