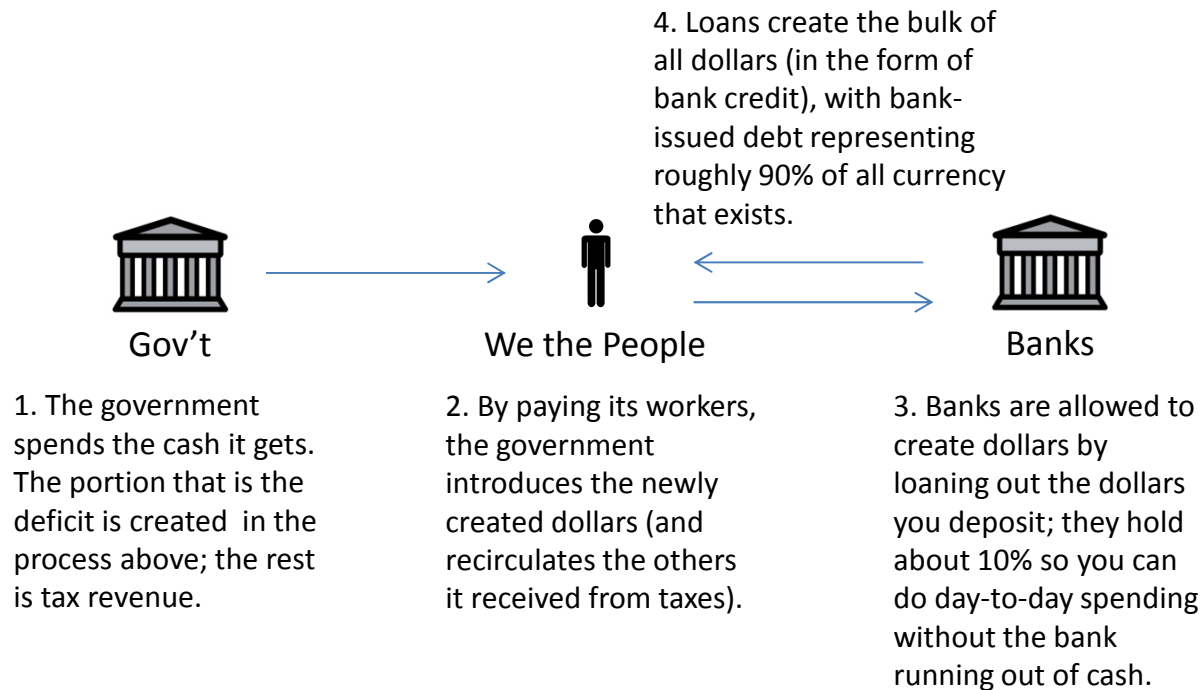


The net effect depends on the mood of the Fed. If they allow more bonds to mature than they purchase, then they are shrinking the supply of dollars. If they build up more and more, increasing their balance sheet, then they are increasing the supply of dollars.



The government rightly fears deflation under a fiat currency system. In a crisis, fewer loans are issued and defaults mount, reducing the currency supply. However, there is always more debt than currency in existence; as currency is destroyed the share of debt to currency grows more and more unaffordable.

Governments have never allowed this to happen. Instead, they destroy the value of currency by flooding society with it, causing hyper-inflation. The end game is a new currency.