

One Big Ugly Thing

By [The Mogambo Guru](#)

11/24/03 In an economy that reaches for prosperity by printing and spending more and more money, a certain side effect will inevitably throw a wrench in the works...

"Fed governor Bernanke believes that it is the low interest rate policy of the Fed that has laid the foundation for a sustainable economic expansion," writes Frank Shostak, one of the big-brained guys with an Austrian-school bent who often shows up on the Mises.com website. "The governor argues that the low interest rate policy has been instrumental in revitalizing household and business balance sheets."

Now, if you are like me, and I can only pity you if you are, then you automatically disagree with anything that Ben Bernanke says, does, or thinks, and if I could get some full-length shots of him perhaps I could muster up a little criticism of his wardrobe, maybe his posture, and if his nose was too big perhaps I could get in a few shots about that, too. As concerns macroeconomic policy, especially monetary policy, then in the majority of cases you have a duty, as a thinking human being who can read, to criticize him without pause, and you would be absolutely right to have done so.

This is one of those times. How in the hell can Bernanke – and I find that I am beginning to say this man's name with a hollow monotone that signifies cold hatred and loathing – possibly believe that balance sheets are "revitalized" by these low interest rates? Only a crazy person could POSSIBLY believe that "revitalized" is defined to mean "Being saved at the last minute from imminent destruction, by merely postponing and intensifying the destruction."

Mr. Shostak seems to agree with me, in his own fashion, and continues, "But how is this possible given the massive load of debt relative to income? Moreover, how is it possible that a sustained economic expansion can commence while savings have almost disappeared? The so-called recovery that we are currently observing is nothing more than a reshuffling process of real funding from wealth-generating activities towards wealth-consuming activities." Now, I go far, far, farrrrrr beyond that, and say that this "so-called recovery that we are currently observing" is nothing more than raw government spending.

Deficit Spending: Hedonic Measurements

To prove my loudmouth assertion, Fred Hickey, editor of The High Tech Strategist says, "Over the past couple of weeks, I've listened to scores of tech company conference calls. In nearly every case, from Cisco to Foundry to Motorola to CDW, the story was the same – their best customer was the U.S. government."

It has already been shown [often by Dr. Kurt Richebächer himself in these pages] how the government uses hedonic measurements, so that each of those dollars of sales of technology is actually multiplied by about six times, as I recall, so as to account for the increase in power per

dollar. So, and I love this stuff, their "best customers," i.e. the government, are actually SIX new "best customers," since each of those dollars in sales is multiplied by six. And there was no, none, zero, zip effort, or money spent, or time consumed, or raw materials transformed! Therefore, the astonishing 7.2 increase in productivity pales before the gigantic GDP gain of these technology sales to the U.S. government, being, as they are, mere hedonic measurements, and therefore are completely bogus. And don't "bogus" and "Federal Reserve" seem to cleave so naturally together?

And as much as I loath Keynes and everything he stood for, I gotta grudgingly admit that he was right about one thing: it is NOT okay to run deficits forever. And deficits ARE good for stimulating the economy during downturns. The point of disagreement I have with him here is not whether deficit spending can stimulate the economy, but whether or not the stimulating is a good thing. I say it is not, in general, a good thing.

For instance, the government spending borrowed money so as to buy guns and tanks will certainly stimulate the defense industry, and there will be the inevitable spillover effects into the general economy that will generate some macro-economic benefits in the aggregate, as the employees of the defense industries cash their paychecks and buy things and services. And the defense industry will borrow and expand, and ramp up production, and consume goods and services, and everybody will have a wonderful time making money, and the economy will be permanently altered. Then, one day, the powers-that-be will decide that they don't need any more guns or tanks, and then the party is over, and then what in the hell does everybody do? The whole economy depends on making guns and tanks!

Deficit Spending: Why I Hate Deficit Spending

And that, in a nutshell, is the reason why I hate deficit spending, and much prefer that the powers-that-be just let the country sink into a cleansing recession, so that the waste and stupidities are washed out, including the elected yahoos that got us into the mess to start with, the resources are put to uses that correspond to real demand by real people who have real money to spend, the morons who invested in the stupidities and mal-investments are wiped out, and everybody learns a little lesson from watching those guys standing in the welfare lines because they speculated on such superfluous gee-gaws and gimcracks, and lost everything for their stupidity.

But here we are with Alan Greenspan, Ben Bernanke and all the rest of those pompous jackasses who call themselves "economists" – and I laugh – Hahaha! – in mirthless glee at the sheer gall it takes for them to do that – who work at the Federal Reserve, and who all think THEY have found a way to make this scheme work. So, apparently it CAN be done, even though it has never, ever worked before.

Unfortunately, all that extra money and credit will work its way into prices, because that is where the money always goes, as has been proved by unanimous historical precedent. Sometimes the bulk of it goes into the prices of assets, like now, where we witness the rise in stock prices far beyond anything that has been seen before, or into loaning deadbeats money to go farther into debt than they have ever gone before, where we also witness the rise in bond prices far beyond

anything that has been seen before, or into real estate, and we witness the rise in housing prices far beyond anything that has ever been seen before, or into the expansion of government and government programs, where we witness a government that is larger than anything that has ever been seen before, and with its attendant wealth- redistributing programs, more and more of them, overlapping and contradicting one another, all competing for a larger and larger share of the economy, the ones that doom us as a nation, that are larger and more epidemic than anything that has ever been seen before.

Deficit Spending: The Economy Is Being Destroyed by the Fed

You will probably notice by the way my voice has raised to a high-decibel, piercing squeal that I am getting so angry that I am on the verge of ripping this awful straightjacket right off and going absolutely berserk. And the reason is that it is this rise in prices that is always the thing, the one thing, the big thing, the One Big Ugly Thing that ultimately destroys the economy, any economy, that tries to print and spend money. Ergo, the economy of the United States IS being destroyed by the Fed, and WILL be destroyed by the Fed and their coterie of ignorant, self-important morons, as exemplified by the aforementioned Ben Bernanke. Like I said, it is as simple as that.

As Exhibit A in defense of my argument, I present Jeffrey Tucker, who reports that "Federal discretionary spending expanded by 12.5 percent in the fiscal year that ended Sept. 30, capping a two-year bulge that saw the government grow by more than 27 percent."

As Exhibit B, I say take a look at the labor strikes, the calls for higher minimum wage, the demand for prescription drug benefits, etc. as what they are at root: Demands for relief from prices that are always rising faster than incomes, and has now made so many things unaffordable.

This is always the result of excess money and credit. Get used to it, because it gets worse, a lot worse, from here on out.

Kind regards,
The Mogambo Guru for the Daily Reckoning

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P.S. And in the end, what will happen, because it has to happen, is that prices will rise and rise, and the poor will end up in worse shape than they are now. And the more extreme the level of government mandates, the more extreme the level of misery that will be inflicted on the most vulnerable of the society; the poor, the sick, the old, the retired, the retarded, and the children. And it will get worse and worse and worse, and then one day it all boils over.

—Mogambo Sez: If you want a real good piece of investment advice, take it from me, the Mogambo, and buy things that are going to be a hell of a lot higher in price in the future. Like gold. And unlike near anything else you can name.