Celsius 9/11

By The Mogambo Guru

07/19/04 They said he was a big fat stupid white man. They said he was a traitor. They called him obscene. Now he's got a movie.

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The Treasury cranked out $6.9 billion in actual, hot-off-the-presses cash last week, which is probably a record of some kind, and not the good kind of record – the kind where you get to shake your bootie and party down on the dance floor.

In the same week, Foreign Holdings at the Fed leapt by another $10 billion, which is that magical place where all those central banks soak up and store their U.S. debt before it gets recycled back to the U.S. It represents an estimate of foreign holdings of U.S. dollars.

Now, not only does the system have to manage this flood of 'fiscal policy money' and 'trade deficit dollars' that is being poured into the world's economy by the Bush administration and the Congressional boneheads in the U.S.A., but also the other gigantic wad of money being created by the idiotic Europeans who are as intellectually corrupt as we are.

I say this because European bureaucrats continue to ignore the fact that Germany, France and Italy – which together make up about 90% of the whole freaking Euroland economy - are running deficits that exceed 3% of GDP…or what is also known as 'puke point', the level that they all agreed was the farthest limits that rational, sane people, who had the benefits of a good education, could allow.

And let's not forget the Japanese, who are bogged down in a budget deficit equal to 7% of their GDP.

Fractional Banking System: Placing Blame

So now you know why Jean-Claude Trichet, a guy who is known for exactly this kind of stupidity, was put in charge of the EU central bank, and why we have Alan Greenspan, also well known for this kind of stupidity, in charge of the American central bank.

Since the need to identify a scapegoat is arriving, it is time to start casting a little blame. Rising to the occasion, the Mogambo strides up to the microphone at Cannes and announces that his Mogambo Movie Company has started production of its new release: "Celsius 9/11."

This fabulous documentary explains that the banking system is the one to blame, just like it always is. Using newsreels, tapes, congressional testimony, candid photographs, gossip and rumors, vicious innuendo, bogus interviews, outright lies and fabricated evidence, it captures, wonderfully, how all throughout history, in every country, in every time and space, economic crises are always caused by bankers.

There is simply no other agency that is able to perform such miraculous magical acts of alchemy, which, nowadays, we call 'creating money out of thin air.' Money, beautiful money!

The process starts when somebody takes on a debt. It's then accelerated through the fractional banking system, which magnifies and leverages the debt, 'making' more money available for more people to borrow, and helping them go even further into debt! It's a self-reinforcing process…creation leads to borrowing which leads to more creation, and more borrowing that causes more money to be created. To be borrowed. Which causes more money to be, well, you get the idea.

Fractional Banking System: The System Implodes

Or as Bob Moriarty explains in an essay entitled "Battle of the Titans" on 321gold.com, "The cause is simple. In a fractional reserve system, even a gold fractional reserve system, all money is created by loaning money into existence. And the more loans you make, the more profit you can make. It is a perpetual motion machine. Just as long as you keep expanding the money supply (inflation) everything works. Or until people borrow far more money than they can afford to pay back. At that point the system implodes and deflation sets in as the money supply collapses."

Kenneth Gerbino is one of those guys who really has a handle on how these things work, and says "The United States at this time, since the 1930s, has made tremendous progress and advancements in all areas…science, technology, medicine, arts, etc., but the truth of the matter is that, in the field of economics, the opposite has occurred. An incredible regression has developed. Economic policies today are much, much worse than in 1929. The five economic evils are all alive and well in modern America: big wasteful government, high taxes, paper money, government debt and budget deficits. But the worst practice is the creation of money out of thin air, which always brings on inflation, higher interest rates and disrupts the normal free market economy."

All that money, all that glorious, fabulous money, turns into, first, debt to finance economic expansion, and then, only later, the decline and deflation. The eventual and inevitable decline is caused by prices going up, pushed up by all the money. And then people stop buying as much stuff, and economic decline sets in.

And why don't they buy as much stuff? I can't speak for everybody else in the world, but for me and everybody I know, it is because of the double-whammy that the Germans might call der Dopplekopfwhackenmachen: a) my income is not rising enough to b) allow me to afford to buy things whose, c) prices are rising faster than my income.

Fractional Banking System: The Austrian School of Economics

And then comes, if you are at all adept at the Austrian school of economics, the inevitable bust, which is one of the ingredients when you play in the sandbox of the Boom-Bust Cycle.

And if you are NOT familiar with the Austrian school of economics, then I suggest that you make reading the Mises.com website a part of your everyday online browsing, and after a year or so you will notice a large decrease in the number of times that you scratch your head in bewilderment, and a HUGE increase of the number of times that 1) you agree with me that Austrian economics is the only one that is logically correct, intuitively obvious, historically proven, and contains an intellectually compelling line of economic thought, 2) you agree with me that central bankers are the actual culprits who cause our miseries because they do NOT believe in the Austrian school of economics, and 3) you will stand shoulder to shoulder with me to declare that what this world needs is a good low-calorie, low-carb, low-fat chocolate cookie that you can eat by the bagful and never gain an ounce in weight.

Or, as Mr. Moriarty so clearly explains, "Here's something you have never read before. With the exception of wartime periods, between 1783 and 1913, inflation was zero. Essentially we had no inflation. But as soon as the Federal Reserve system came along, here comes inflation. Using the government's own figures, we can soon see that to equal the purchasing power of $100 in 1913, we would need $1,840 today. All the product of the Federal Reserve system."

In case you were wondering, that works out to an annual inflation of only 3.25%. The knotheads we call American economists call this "benign inflation" and "low inflation." It is not.

As if to provide a nice coda to my remarks, the dollar has started back down, and it is falling faster now than it was when it was rising, which is in keeping with the general theory that things decline faster than they grow or are smashed quicker than they are built.

Regards,

The Mogambo Guru
for The Daily Reckoning
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—Mogambo Sez: I have been getting calls from desperate people wanting to, mostly, know what is going on with the decidedly lackluster performance detailed in the mutual fund statements that are showing up in their mailboxes like bricks, and quite a few inquiries about when I am going to return their BBQ grill or pay back some of the money I owe them.

To each of these topics I am at a loss to explain. I was real embarrassed about it, until I read that Marc Faber, yes THAT Marc Faber, he of Marc Faber Ltd headquartered in Hong Kong, who admitted, when you read between the lines of what he literally said, that perhaps the Mogambo is not as stupid as everyone says, and handily explains that my confusion is because "We live in the midst of the largest financial bubble the world has ever known. World bubble-isation is courtesy of a monetary phenomenon that lacks antecedents. Never before has any country printed as much money or extended as much credit without melting down the printing presses. The credit madness is difficult to comprehend. It is hard to understand in relation to past economic imbalances, because none exist."

All I know, and all anyone knows, is that it will not work out. We just don't know how, or when.

Editor's note: Richard Daughty is general partner and C.O.O. for Smith Consultant Group, serving the financialand medical communities, and the editor of the Mogambo Guru economic newsletter, an avocational exercise the better to heap disrespect on those who desperately deserve it.

The Mogambo Guru is quoted frequently in Barron's, The Daily Reckoning, and other fine publications. If you're inclined to read more, you'll find the whole Mogambo here:

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Inflation was supposed to be a 'sure thing.' Turns out, it's not so sure after all. The latest figures show the CPI barely moving. Meanwhile, the money supply is actually falling…stocks are slipping…and the dollar continues to give ground against the euro. Gold sits tight, comfortably above $400, and bonds are moving up!

Of course, it is the middle of the summer. And if anyone cares, he doesn't work here at the Daily Reckoning. We are as footloose and carefree as a tramp.

Still, we can't help but have guesses and opinions. Our guess is that it is not inflation that worries the Fed; it's deflation. Businesses are not borrowing. Which means, in order to get money into the economy, the Fed has to rely on the government and the consumer. The government has already done all it can. And the consumer? Unlike business, which borrows to increase capital investment and employment, nearly every penny a consumer borrows is thrown away; he buys a hot tub for his back yard and ends up poorer and more vulnerable than before. Like it or not, sooner or later, he is forced to stop borrowing. That moment may not be close. But it is certainly closer.