Economic Parasitism

By The Mogambo Guru

05/03/04 The Mogambo Guru pushes his brain to the limits and wonders about the link between Applied Thermodynamics and Economics. The surprising conclusion – Bankers are parasites and Greenspan is causing inflation.

Tom Webber, a reader of the MoGu who foolishly thinks that by sending me things to read I will maybe get an education and hopefully smarten up one of these days, sent an interesting but somewhat lengthy article entitled "Fractional Reserve Banking As Economic Parasitism," by a guy named Vladimir Z. Nuri. The thrust is that the science of physics applies directly to economics, as in "applying statistical and computational modeling techniques to come up with…theories of money flow in…large economies." There is now an emerging body of research actually doing this, and he calls it "econophysics."

(Many of the techniques used in the equation-laden field of thermodynamics, mostly involving the 'Ideal Gas' law and Boyle's law, can be applied to economics – an example of which is the visualization of an increasing money supply as a kind of pressure or the multiplication of money stock by velocity to arrive at volume, etc.)

Thus Vladimir Z. cleverly notes some of these eerie parallels between physics and economics, and how many of their formulas resemble each other, which fascinates me for two reasons…

Firstly, they are both concerned with physical things, like money and gases, and how they operate in the real world, and secondly because the current crop of mainstream economic theorists and THEIR theories and equations have done such a poor job that it apparently amounts to mere hocus-pocus, and we should be on the lookout for something better.

So, getting back to the article, Mr. Nuri wisely instructs us that one can be led to enlightenment by always remembering a Latin phrase, "cui bono?" which translates as "who benefits?" And then he caps that off with "caveat emptor," or "let the buyer beware." This is an adaptation of that other timeless credo, which is "follow the money."

He uses this transcendent insight to ask some (and here you have to imagine that I am slowly stroking my chin in a thoughtful, pensive way and looking into the distance as if lost in thought) very interesting questions, such as concerning "Spending and circulating new dollars…the key question is, who owns those dollars?"

His conclusion, and my conclusion, and your conclusion if you have correctly used your Mogambo Decoder Ring, is that the bankers own the dollars because they are the ones who created the dollars in the first place, and that is why he writes "Whoever has or is given the authority to create credit has the authority to extract wealth from the economy by that same mechanism."

And these people are, as they always are, the bankers. The bankers are, in other words, extracting the wealth of the USA to enrich themselves.

Using this bit of timeless wisdom, he dissects Greenspan's famous 1967 essay entitled "Gold and Economic Freedom," and notes that Greenspan was correct when he described how, when the supply of money increases, that the "earnings of the productive members of society lose value in terms of goods," but that Greenspan was wrong when he immediately followed that up with, "When the economy's books are finally balanced, one finds that this loss in value represents the goods purchased by the government for welfare or other purposes."

In truth, says Nuri, and the Mogambo leaps to his feet and proclaims "Verily, in truth!" the grubby bankers created the credit, therefore the bankers created the money, therefore the bankers owned the money, and therefore the value went into the pockets of, and I am sure that you have already connected the dots here, the bankers themselves.

What everybody else ends up with is, predictably, pure price inflation, making them all worse off. And this inflation is due to the decreased purchasing power of the previous stock of money that has been diluted by the issuance of the newly created money. See how simple this stuff is? It makes you wonder why Alan Greenspan doesn't comprehend it.

Nuri also posits the concept of economics as an ecosystem, and, as he says, "building on it, an important additional theme proposed and explored here is that of economic parasitism." I naturally assume that he arrived at this ugly metaphor by talking to my wife, who habitually characterizes me as a blood-sucking parasite that has drained every bit of joy from her life and, even as we speak, her will to live.

But his perspective is that parasites survive by utilizing various techniques to remain unnoticed, they use their anonymity to feed on their hosts, and, in many cases, actually alter the behavior of their hosts toward suicidal actions so that the next phase of their parasitical lifecycles can proceed. Politicians, bankers, overpaid CEO's and lawyers immediately come to mind, and the term "parasite" is probably a lot more descriptive than "vampires," which is another apt metaphor that is often used to describe these groups of people.

I will not take you farther down this ugly path because I am disgusted by the whole parasite concept, nor down the path of math and formulas because I am confused by that whole concept, too, and I spend more than enough time being disgusted and confused as it is, thank you very much. But I will take you gently by the hand and lead you directly to some of the conclusions, and then show you how to make some money on the deal, so that maybe we'll all go out for a beer.

The short executive summary (SES) is that Mr. Nuri validates, through rigorous mathematical process, everything that the Austrian school of economics has been saying all this time, and everything that I have been saying all this time, too, although they say it with class, wit and erudition, which you can verify by going to the Mises.com website, while I spew what appears to be blubbering gibberish, which you can verify by reading anything I have ever written.

And the mathematical conclusion shows that deflation is actually a good thing! Nuri says "deflation can be a natural and beneficial redistribution of increased GDP or efficiency," although the horrid Alan Greenspan thinks otherwise, and that is why he is trying to kill us all with inflation. I, and a lot of other people, think that deflation is a good thing, too, because it is 1) the mark of a truly healthy economy, and 2) it is intuitively obvious that lower prices mean that a paycheck can buy more things, and buying more things is the favorite pastime of homo Americana as well as being at the very heart of increasing standards of living, which is the goal of economics and its application.

The obvious way to make money on the deal is to buy a bank. If you can't get one of them, then buy gold, because all bank multiplications of the money supply in excess of the growth of GDP lead directly to inflation. In fact, the main conclusion is that, like the Austrian school, expanding the money supply automatically produces inflation, as when Nuri says "Price inflation is a precise, mathematical measure of the macroscopic energy dynamics of a system which adheres to physical laws." And where does this energy come from? Exactly where you thought it comes from: fractional reserve banking. It is one of the world's greater evils, my grasshopper, and if you don't watch out, Mr. Greenspan and his banker cronies will use it to steal the value of your money from under your very nose.

Regards,

The Mogambo Guru
for The Daily Reckoning
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