# Odious, Market-Manipulating Remedies

By The Mogambo Guru

03/28/05 As we expected, the conspiracy theory the Mogambo has about evil people destroying the world with inflation, is true. We know, it's hard to believe anyone who screams these theories late at night from his roof, wearing only his underwear and a cape…

"America has become more of a debt 'junkie' than ever before with total debt of $40 trillion, or $136,479 per man, woman and child. 66% ($27 trillion) of this debt was created since 1990, a period primarily driven by debt instead of by productive activity," says Michael Hodges of the Grandfather Report, and I note with a shudder that Alan Greenspan took over the Federal Reserve in 1997, just three years earlier.

He identified this debt load as representing "All U.S. debt," which is the "sum debt of federal and state & local governments, international, and private debt, incl. households, business and financial sector debts, and federal debt to trust funds."

And then when you divide this $40 trillion cumulative debt by the 70 million people whose jobs are not government jobs or are paid with government money, then those poor 70 million private-sector workers have to work to pay off $571,428 apiece! Hahahaha! Whose idiotic idea IS this? Hahahaha!

**Antal Fekete : "Burning Bridges and Halfway Houses"**

Anyway, I get to thinking about these things, and I wonder how in the hell we got where we are, which is one of the downsides of being stupid, as I am always confused as to how I got where I am. Then I receive a forward from my old budderoo, Phil Spicer, who thought I would be interested in reading an article, "Burning Bridges and Halfway Houses," by Antal E. Fekete, who is the Professor Emeritus at Memorial University of Newfoundland, dated March 21, 2005.

Prof. Fekete writes about the idea of the liquidity trap. "The term originated with Keynes himself," says the professor, "who, in the second half of the 1930′s, noted that his contra-cyclical prescription to inject new money in the economy through central-bank purchases of bonds in order to combat falling prices wasn't working. In fact, it produced just the opposite effect of what he had hoped. Deflation got worse, not better."

Bummer, huh? Keynes and his stupid little economic theory are a dismal failure, and now everybody looks like a bunch of idiots.

What's the problem? Well, Prof. Fekete goes on to write, "As the ownership of monetary gold was made illegal in 1933, the only competitor to government bonds was removed from the arena. Owners of monetary gold were forced by the strong arm of the government to invest in government bonds – not a very pretty sight in itself, even if the matter ended there. But the matter did not end there. As holders of gold were competing for the limited supply of government bonds, which rightly or wrongly they considered as the safest thing to have second only to gold, bond prices were driven to unprecedented heights and interest rates were plunged to unprecedented depths."

Again, just like today! People today are actually buying bonds, and long-term debt to lock in yields that are less than the rate of inflation! Which is rising! And it is rising at the same time as the Federal Reserve guarantees general interest rates; to keep rising from these historically aberrant lows! Everybody is piling into bonds as the government is issuing oceans of new bonds, and the Federal Reserve is creating the credit that will be turned into money by everybody borrowing money to buy the bonds, thus creating a supply-demand imbalance that drives up prices, which drives down interest rates, which hands a tidy profit to all the people who borrowed money to buy the bonds, which makes a bunch of OTHER guys say, "Hey! Maybe we ought to borrow some money to buy some bonds, too, so that we can make this easy money!" And so they do! And that worsens the supply-demand imbalance, which makes prices go up more, which makes interest rates go down more, and everybody is making scads and scads of money on this scheme! Weird!

Prof. Fekete says, "Deflation is present in the economy in the first place, in which case it is made worse than it need be by prompting speculators to buy bonds in tandem with the central bank. Interest rates fall and through the mechanism of linkage prices fall, too, as the flow of money from commodities to bonds accelerates. In the worst-case scenario a vicious circle is activated and the economy plunges into depression."

Of course, a sane person would have started a large ceremonial fire in the front yard and danced and chanted, "The Mogambo was right! This is stupid! We MUST go back to gold as money!" But noooOOOoooo! What did they do instead? Well, they kept that silly philosophical crap up the whole time, trying and trying and trying until it was made to work, until now we have, as he explains, "The world center for liquidity-trap studies and for the inflation-targeting cabal is the Woodrow Wilson School at Princeton University in New Jersey. Under the leadership of department head Ben Bernanke a team consisting of Paul Krugman, Lars Svensson, and Mike Woodford has been busy investigating the liquidity trap and finding ways to unplug it through inflation-targeting should it get clogged again."

These evil people are the ones who want to destroy you with inflation as a remedy for the mess made by this very stupidity! Gaaahhhh!

**Antal Fekete: "Can Deflation Be Prevented?"**

Then Mr. Fekete links this all to an infamous essay, "Can Deflation Be Prevented?" by Paul Krugman, and written in February, 1999. Mr. Krugman explains their weirdness like it is the most natural thing in the world. "Yet here we are, with deflation turning out to be a serious problem after all – and with policymakers finding that it is not as easy either to prevent or to reverse as we all thought. The point is that deflation should – or so we thought – be easy to prevent: just print more money. How can we get finance ministers and central bankers, who have spent their whole careers preaching the evils of inflation and the virtues of price stability, to accept the idea that price stability may not be an available option?"

How do you get people to get over the silly notion that shooting a bullet into your own brain is a bad idea? Is that what Mr. Krugman wants to know? How do you get a person to do something that is irrational and stupid, when every relevant source, in-freaking-cluding all of history, the Bible, and common sense, all say it is irrational and stupid?

Well, Hans Sennholz, famous Austrian economist that he is, says that it may be a hard sell, because, like me, he sees it again and again all the way through history. "The popular notion that an increase in the stock of money is socially and economically beneficial and desirable is one of the great fallacies of our time. It has lived on throughout the centuries, embraced by kings and presidents, politicians and businessmen. It has shattered numerous currencies, inflicted incalculable harm, and caused social and political upheavals. It springs forth, again and again, no matter how often economists may refute it."

While Dr. Sennholz does not mention the Princeton group by name, he obliquely refers to, "American statisticians and economists want to make us believe that America is a new-paradigm exception in this respect, being miraculously able to generate unprecedented productivity growth with zero savings and record-low fixed business investment. The consensus readily believes it. For us, this is macroeconomic rubbish."

**Antal Fekete: Inflation-Targeting**

Mr. Fekete goes on to lie out more bad news: "Without any hesitation they took the advice of Krugman, abandoned policies ‘conventionally regarded as responsible,’ unilaterally betrayed their mandate, burnt the halfway house of price stability, and hit the warpath of inflation, euphemistically calling it ‘inflation-targeting’."

I leap to my feet, and shout, "Yes! Yes!" That is EXACTLY what makes the poor old Mogambo go berserk and is what he has been screeching about at the top of his voice all these years, and now this Fekete character does such a good job of explaining it without even raising his voice, and now I feel my life is wasted, and nobody loves me and boo hoo hoo.

But I was going to try and save a little of my tattered career as a lovable lunatic by talking about how serious this was, but before I could even open my damn mouth, Mister Know-It-All Fekete was already talking about it, so I sat back down in a petulant huff and started feeling sorry for myself again, and I could hear him say, "The seriousness of the problem cannot be overstated. A steep rise in interest rates at this juncture would be the horror of horrors. Normally higher interest rates would strengthen the value of the currency as they attracted foreign investors. Not this time. Apart from the problem of pricking all the bubbles in the economy starting with the housing bubble, and ballooning the budget deficit into outer space, there is an even larger and more immediate problem. And that is the effect that steeply rising interest rates have on the value of bonds, widely held at home and abroad. The effect is inevitable and instantaneous. Higher interest rates make bond values collapse."

Now if we have a gazillion dollar’s worth of bonds out there, which we do, and there are owners of those bonds, then what is the economic effect of a gazillion dollar’s worth of bonds collapsing to those guys? Hahahaha!

The only thing left for me to do, to try and grab a little of this elusive limelight, is to insult the Fed and Krugman and Bernanke and all the rest of these crumb-bum losers, but even HERE this Fekete dude is busting my chops!

He goes on to say, "Krugman has convinced us that the money-managers at the Fed have got rid of their last scruples, if they ever had any. Paraphrasing him, if you really believe that runaway inflation is now a global threat, you should also believe that only policies lying outside of the realm what is conventionally regarded as responsible will contain that threat. One irresponsible monetary policy deserves another. The contingency plan to prevent a steep rise in interest rates will have to involve a conspiracy between the Fed and the Bank of Japan to punish speculators short-selling the dollar and dollar bonds. There is nothing else left in the Fed's bag of tricks but the check-kiting scheme with the Bank of Japan that could hold back the forces of monetary destruction waiting in the wings."

Then he sums it up in particularly poetic form. "Never mind that it is 'conventionally regarded' as irresponsible. Never mind that it is illegal. Never mind that it is criminal. Nothing else will defer the day of reckoning."

I guess the lesson is that there may be life left in the stock and bond markets yet, as the Fed is now reduced to these odious, market-manipulating remedies.

Regards,

The Mogambo Guru
for The Daily Reckoning