

The Biggest Fraud in History

By [The Mogambo Guru](#)

05/23/05 Much to the Mogambo's complete and utter surprise, total Fed credit went down...but without all this "money from thin air," the money supply in America has hit a wall. Looks like an economic slowdown looms in the distance...

I made a solemn vow to sober up, and this time I really mean it, when I read that Total Fed Credit did NOT, again, climb, it did NOT, again, remain constant, but last week it went down by \$3.2 billion! Naturally, I assumed that my bloodshot eyes are deceiving me, or that I have finally killed the few remaining neurons in my brain that still work. Can this slowdown in Fed credit be true, and I can get back to a life of drunken dissolution with a clear conscience? Time will tell.

And what is the significance of Fed Credit? Because this is the magical and fabled Money From Thin Air, which is distributed to the banks by the Fed merely pushing a button, which uses it to make loans, and when the bank makes a loan, real money is thus created, not from thin air, but from the increase in their reserves, which came from the increase in Total Fed Credit, which you realize DID, if you have been paying attention, come from thin air. So, without all this new money from thin air, the money supply has, umm, stagnated.

Mark Lundeen, a guy who literally drips data, sent me a graph showing the growth of Fed Credit since 1938. Back then, even after that arch-communist FDR was installing the socialist state in America, it was about \$10 billion or so, and it was gradually rising and rising, faster and faster. Somewhere in the middle 70's, it finally grew to \$100 billion, but it kept on increasing, faster and faster. Then, coinciding with the horrid Alan Greenspan being appointed as the chairman of the Federal Reserve, it really got going. Now it is at \$783 billion.

The New Hampshire Sound Money Bill : The Money Supply Drops

Sure enough, when we take a look at the money supply, as measured by the M's, we notice that they all fell, too, although for reasons completely different than why The Mogambo fell down, which was because I was going to unsteadily go over and finish off that bottle of tequila so that I would not be tempted to drink it later. But the money supply probably fell because of a lot of reasons, mostly because more people were paying off their loans than were taking on new ones. But it was nothing to write home about, but it does merit the kind of attention that one pays to small clouds on the horizon, knowing that small clouds can grow to big clouds, and then suddenly you get pelted by wind and rain and your new portable radio gets all wet and is ruined, and nobody wants THAT! So it pays to keep an eye on these damn clouds.

Even Randall W. Forsyth, taking over for Alan Abelson in writing the "Up and Down Wall Street" column in Barron's, remarked, "The money supply (which is hardly ever mentioned in polite company anymore) has hit the wall, and while we're not high-church monetarists, a collapse in money growth always has presaged an economic slowdown and a punk market."

Now, let's analyze the last phrase of that sentence. "[A] collapse in money growth," which probably has nouns and verbs all over the place, but who cares, is when money is no longer being created. And since it can only be created by people borrowing money (because that is how a fiat/paper money system works), this has "presaged", probably meaning something like meaning to "leading to" or "providing advanced warning about" or something in that vein, "an economic slowdown" which hardly needs any explanation because everyone knows what an economic slowdown is, and if you do NOT know what an economic slowdown is, then I know you are very young, and you are now going to get an education as to why your parents are probably the way they are, mostly yelling at me to stop watching that damn TV and get some work done, a task that has now fallen to my wife, who is even less successful at it.

Cliff Droke, editor of the Gold Strategies Review newsletter, notes that MZM (money of zero maturity) has not been growing, and concludes that this "makes an economic slowdown a near-certainty in the months ahead."

Just as alarmingly as people wanting me to do actual work, the Treasury has apparently stopped selling new debt, which makes you wonder how in the hell they are going to finance their megalomaniacal visions of empire.

The New Hampshire Sound Money Bill : Frauds Come Undone

But this is not about how the federal government and their willing little whore, the Federal Reserve, have apparently gotten tired of the Mogambo screaming bloody murder about this monetary insanity stuff, and have stopped this silly crap long enough to take a nice nap or something. It's about how frauds (and our current monetary policy is the biggest fraud in history) always come undone and leaves everybody weeping, and then I get blamed for everything.

For one, GATA, the Gold Anti-Trust Action committee, is back with Eric Hommelberg leading the charge, who has even more strident denunciations of the manipulation of the gold market. That the gold market is manipulated is beyond doubt, but then so are all the other markets, too. One current example is the precious metals markets, and Ted Butler remarks, "[T]he tech funds have never booked a real profit in gold or silver due to their buy-high, sell-low approach." An interesting detail is, "the dealers have never booked a loss." He notes that there are some who suspect some type of collusion between the dealers and the techs, me included, but then I always suspect collusions and betrayal, as that is all I have ever experienced.

But there is good news in this, as Mr. Butler explains. "It has been the remarkably predictable trading pattern of the tech funds that has made the analysis of the COT (Commitment of Traders) so reliable. It is the predictability of the tech funds' behavior that has enabled me to consistently identify low and high risk points in the silver market for the past few years."

But before you jump up out of your seat to delve into this revelation and make a few bucks for yourself by following the behavior of the tech funds, here is the interesting part: Things are suddenly different! In fact, he says so himself, as he writes, "The numbers are different than anything we've seen in the past." And he surmises that it may be time to "throw the old COT

guidelines out the window" because a lot of other big-money dudes have noticed this weird relationship, and are moving in to cash in on it, too.

The New Hampshire Sound Money Bill : The Illegal Fiat Monetary System

So what to do with gold and silver if you buy it? Well, James Turk, who writes The Freemarket Gold and Money Report, writes, "Last year, State representative Henry McElroy introduced HB 1342, which has been dubbed the New Hampshire Sound Money Bill. This bill enables people to use gold and silver in their transactions with the state of New Hampshire."

If this passes, then New Hampshire will finally be free of the inflationary shackles of the illegal fiat monetary system that has been pounded down our throats since Wilson allowed the establishment of the Federal Reserve, and (as he has been called by Vin Suprynowicz) Franklin Delano Mussolini, who used it to destroy freedom from government in America and put us all in the thrall of the government and the banks, which was a big, big mistake, as you can see by just looking around you.

But Mr. Hommelberg is addressing gold when he says, "Knowing that the price of gold was managed paved the road for the 'in the know' bullion banks to accelerate their profitable gold carry trade (selling gold being lend by the Central Banks). A declining gold price was win-win situation for many." How was this a win-win situation? Well, for one thing, the banks lent the gold and got a higher price for it, and they still had the damned gold on their books, if not actually in the vault! The guys who leased the gold sold it, and now they can repay the borrowed gold by buying it cheaper on the open market! Not only that, but Mr. Hommelberg notes, "The U.S. government welcomed a lower gold price since it lowered inflation expectations and strengthened the dollar." Now, the failure of the price of gold to rise did not, of course, prevent inflation. It just made it LOOK like there was no inflation, since people were not scrambling to trade in their depreciating money for gold.

He goes on to write, "This effort [by the Federal Reserve, Bank of England and BIS to turn back the gold price] was later described by Edward A. J. George, Governor of the Bank of England and a director of the BIS, to Nicholas J. Morrell, Chief Executive of Lonmin Plc 'We looked into the abyss if the gold price rose further. A further rise would have taken down one or several trading houses, which might have taken down all the rest in their wake. Therefore at any price, at any cost, the central banks had to quell the gold price, manage it. It was very difficult to get the gold price under control but we have now succeeded. The U.S. Fed was very active in getting the gold price down. So was the U.K.'"

In a related note, Switzerland has finished, as of March 30, with its sales of roughly 1300 tonnes of gold that it started in 1999. The odd thing is that even as they were selling, the prices of gold went up almost from the very day that they started selling it!

Regards,

The Mogambo Guru
for The Daily Reckoning

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P.S. The Mogambo Sez: The lease rates for gold on the Kitco.com site show that the rates are rising a lot. This should cut down on the current push to crush the price of gold. Theoretically.