Malignant Monetary Madness

By The Mogambo Guru

06/12/06 The Daily Reckoning PRESENTS: The nomination of Goldman Sachs' bigwig Hank Paulson for Treasury secretary has the Suspicious Mogambo Mind working overtime. Read his latest conspiracy theory, below…

MALIGNANT MONETARY MADNESS

I am cursing under my breath at all of this monstrous, malignant monetary madness (which is this week's installment of gratuitous alliteration for no particular reason), when I suddenly realize: "Hey! I haven't said something nasty about somebody in government, Wall Street, or the banks!"

To correct that grievous error and to get my bodily humors and biles back in sync, I can cover them all by noting that everybody seems to think that Hank Paulson from Goldman Sachs taking over as the new secretary of the U.S. Treasury is such great stuff, but the fascination escapes me. He is just some smiling suit who made his money by successfully hustling up clients and cash for Goldman Sachs to manage and rake off some big fees. Apparently, that is what his duties at the Treasury will be, too.

After all, what in the world can the secretary of the Treasury do? He is just a laborer. Congress proposes to spend, the president signs every spending bill laid in front of him, and then the U.S. Treasury Department issues bonds to finance the spending. That's how it works. And, somehow, some big shot from Goldman Sachs as secretary of the Treasury can affect any of this by juggling the books? Hahahaha!

In turn, of course, the loathsome U.S. Federal Reserve creates additional credit, so that somebody can borrow the credit (turning it into money), which is used to buy the U.S. Treasury bonds ("going into debt to buy debt!").

In short, my Suspicious Mogambo Mind (SMM) immediately comes up with a million terrific conspiracy theories about how Paulson was obviously placed there to benefit Goldman Sachs, which (I note with sarcasm) is a major shareholder in the Federal Reserve, and I assume, is now to create new secret accounts everywhere so that his actions (at the behest of Goldman Sachs, the White House and the Federal Reserve) can be hidden from view. This is exactly the kind of desperate, despicable, degenerate thing you see at the end of long booms.

I am sure that it does not surprise Christopher Galakoutis, of CMI Ventures, whose essay "Out of Bullets" was posted on SafeHaven.com. He writes, "Speaking of successions, it was just announced that Henry Paulson of Goldman Sachs will replace John Snow at Treasury. This to me is further proof that everything within reach of our bankers and politicians will be utilized to keep the US's 'prosperity' game going. You just don't bring in a Wall Street heavyweight when you are about to cripple the economy with tougher Fed action."

Peter Schiff, of Euro Pacific Capital, does not suggest that Mr. Paulson was nominated for anything underhanded, but perhaps because "In today's style over substance economy, the job of Treasury Secretary has devolved into a pitch man for the government's economic disinformation campaign."

And let's remember that Lloyd Bentson disgustedly quit the job of Treasury Secretary, and Paul O'Neill was fired for being too curious (and for being too honest about what he found). We ended up with John Snow, who is, apparently, none of these things.

As to why Mr. Paulson, perhaps this is a good time to quote the new interview of Jim Rogers by Jonathan Laing in Barron's magazine, where Mr. Laing writes, "According to Rogers, new Fed Chairman Ben Bernanke is 'an amateur with no knowledge of markets' whose academic work revolved around how nations could avoid depressions by printing more money." Hahaha! Exactly!

The rub is that you can make money available at low rates, but you can't make anyone borrow and spend it. I figure that this is where the new Treasury honcho comes into the picture.

And since we are talking about the Jim Rogers interview, he is pretty adamant about the coming boom in commodities. Let's be sure that we completely comprehend all the ramifications of the phrase "Add to (American consumption) 1.3 billion Chinese and 1.1 Indians – all walled off from the global economy during the last commodities boom – joining the global scrum for natural resources." This additional 2.4 billion people represents, in case you were wondering, a full third of the world's population.

Once you take the time to meditate on that mathematical fact, it is then but child's play to instantly agree with Mr. Rogers' view, namely that "it's delusional to deny that competition for commodities will continue to heat up as a result of China's pell-mell rush from a peasant economy to economic giant."

As a fun "rainy day" activity, get out your Mogambo Junior Economist Machine (MJEM), enter the two variables "chronic, gigantically rising levels of demand" and "lagging supplies in a finite world," and then crank the handle a few times. If your shiny, new MJEM is not past the end of the two-hour warranty period (and therefore not just another Broken Piece Of Mogambo Enterprises Crud (BPOMEC)), you will probably notice that demand and supply for commodities will equilibrate at a higher price. And "higher prices" is a prerequisite for "profit" in a "buy low/sell high" kind of way.

But if you are stupid enough to buy a Mogambo Junior Economist Machine from Mogambo Enterprises (our mott "Our business is profits, not quality!"), then you probably did not notice that chronic, gigantically rising demand for commodities and lagging supply in a finite world equilibrate at a higher price. In that case, take just my word for it.

And now, looking out into the misty future, we see that wisely including the word "chronic" in defining a rising level of demand means that this bull market in commodities will last another 10-15 years, just like all the other commodity booms in history seem to have done.

“Well,” you might well note, “if there is a rush to buy commodities, then the increase of demand (constrained by sluggish supply) should be reflected in a rise in the prices of commodities.” Good point, young grasshopper! So, we take a look at look the CRB Group Index futures and we can’t help but be impressed that they are up 26% over last year’s prices. The industrials are up 63%, grains/oils up 12%, energy up 23% and precious metals up 51% from last year, too. Livestock, the sole exception, went nowhere.

Now, let’s look at the commodity price index in the Economist magazine. Sure enough, that’s what you see there, too! The Dollar Index item labeled as the inclusive “All Items,” is up in price by 36% in the last year. With the Sterling Index, All Items are up 31.6%, the All Items Euro Index up 30.2% and the All Items Yen Index up 41.3%! Oil is up 39.2% over this time last year, while gold is up 58.9%.

So, if you think that inflation is low, then you are truly insane.

In keeping with this “Everybody is insane” theme, bonds actually rose in price as clueless “investors” snapped up bonds, locking in yields so low that I laugh in contempt. I find it quite unbelievable that anyone would buy a bond at these prices! Heck, even 30-year bonds are priced so high that they are yielding roughly the same as the Fed Funds rate! And in fact, the yield curve actually inverted today, so that long rates are less than short rates! Hahaha! What morons!

Until next time,

The Mogambo Guru
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Mogambo Sez: The gold and silver market manipulators are handing themselves and their friends a gift, as they know that gold and silver are going to boom any minute now, as they always have when economic conditions got like this. If you want some, and you should, then all you have to do is walk over and pick it up!