

The Insane Hell of Fractional Reserve Banking

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A Daily Reckoning Whitepaper Report

by The Mogambo Guru - *The Daily Reckoning*

Justice Little of Outstanding Investments makes the bullish case for gold when he writes, “In oil terms, gold is the one investment that’s still very cheap. Historically, gold averaged a cost on par with 15 barrels of oil. Right now, it takes just over eight barrels of oil to buy an ounce of gold.”

The good news is that powerful medications I am gobbling by the handful are now speeding to wherever in the hell they go, and are starting to take effect. Hopefully, we will not have a full-blown Mogambo Episode Of Outrage And Vengeance (MEOOAV). Indeed, my spirits are buoyed by the sweet, secure, satisfying knowledge that gold will protect my wealth. And if you don’t think so, and you are not putting money into gold and silver and the shares of gold and silver mining companies (and oil, lest I forget to mention it), then I know that you were not a good student in school. To be fair, neither was I, as my whole day seemed to be filled with beating up guys smaller than I and getting beat up by guys who were bigger. And to tell you the truth, that seemed to be a full-time job in itself, on top of the strain of being raised by mere Earthling parents.

And I am also cheered by the “Elliott Wave Gold Update VIII” by Alf Field, which contains the immortal observation that “people who generally buy and hold gold do so because they understand the concept that it is the ultimate store of wealth and that gold provides protection against the inevitable demise of our existing world wide fiat currency system.”

Fractional Reserve Banking: Economics

And if you were wondering why gold and silver have had such big declines recently, Bill Murphy, of LemetropoleCafé.com, elucidates. “One of my fears was, because of the desperation of those in power in Washington ahead of the coming elections, that they might bomb gold. It seems that was the plan.”

And apparently the other central banks are in on the plan, as the ever-affable Chuck Butler, president of EverBank World Markets, reports that he saw a Reuters news item that, “Portugal’s central bank sold 15 tons of gold in July and 20 tons in August.” He follows this up with the perfect example of central bank stupidity when he writes, “You might recall that central banks all signed an agreement about six years ago that allows them to sell ‘X amount of gold each year. Most central banks have stopped selling gold as the price rose.” Hahaha! They sell when it is cheap, and they stop selling when they could get more money per ounce! Hahahaha! This is too, too rich! Thanks, Chuck!

And since everybody seems to have a plan, the Big Mogambo Plan (BMP) is to take advantage of this, and buy more gold and silver at these artificially low prices, capitalizing on the corruption and stupidity of the government when this criminal manipulation scheme goes bust, as it must, because that is always the fate of these kinds of lowlife government corruption.

But on the other hand, thanks to all the stress, my nerves are sharp to the point of almost snapping, and the reflexes in my trigger-finger are like greased lightning. The least little thing, and “Blam blam blam!” bullets are suddenly everywhere, although I then have to sit through another hysterical-but-boring “gun safety” lecture from the wife and kids, who aren’t even armed, so how in the hell can they know anything about gun safety to lecture me like that?

And besides, I take my cue from the police, like last week around here when some weirdo in a car allegedly smacked his weirdo girlfriend (also in the car) upside the head, and (so they say) threatened her with a gun. Bad enough.

But what happened next is the lesson in economics. At last count, from what I could see on the TV, traffic was snarled for miles, for the entire afternoon, as at least 30 policemen and nine squad cars surrounded this car, now stopped on the side of the highway, plus at least five SWAT team members in full commando armor and with two vehicles of their own, and AN ARMORED FREAKING CAR! Were you asking where all that government spending went? There is a bunch of it, right there, dude! The decades-long bubble in the size of government produced, as bubbles always do, grotesque mal-investments and distortions in the economy. This is merely one of them. An ugly, fascist one at that.

And it is not just America where this kind of idiocy runs rampant, as we learn from Bloomberg.com, “Venezuelan vehicle sales rose to a record in August as President Hugo Chavez used surging oil revenue to increase government spending.”

I note with a mix of relief and horror that the governments may be getting a discount for cash to buy all of this police equipment, plus the regular upgrades and new technologies, like CD players in their armored cars, and that is perhaps why the Fed literally printed up another \$4,979 million in actual cash last week, which I round off to \$5 billion, bringing total dollars of Cash in Circulation to \$798.573 billion.

Fractional Reserve Banking: Hmmm

I know what you are thinking. That sharp Mogambo-honed brain (SMHB) of yours is saying, “Hmmm! I am perplexed by the fact that there is only \$798 billion in actual cash in existence, and my wonderful SMHB wonders how that little bit of money can produce an \$11 trillion economy, a national debt of \$9 trillion, consumer indebtedness that is over \$30 trillion, \$80 trillion in accrued federal government liabilities, \$450 trillion in derivatives, a \$600 billion annual federal budget deficit, and an \$800 billion trade/current account deficit. How is this possible? Or is The Mogambo just an idiot like everyone says?”

I shall answer your questions in reverse order. Firstly, yes, I am an idiot like everyone says. That is why my wife wears a T-shirt that has an arrow pointing to the right that says, “I’m with

stupid”, and I have to wear a T-shirt that has an arrow pointing left and saying, “I’m the stupid one she is with”. She says that it is funnier for her than it is embarrassing for me, and so, she says with an enviable, air-tight economic logic, the shirts maximize that kind of utility. Alas, when she’s right, she’s right.

But the good news is that, being a now-identified moron, I can scratch my fat butt anytime I want when we are at the mall, and people leave me alone (which is mostly the whole point), and they have pity on my wife, which is what she thinks she deserves anyway. So, it really IS a win-win situation! Who knew?

Secondly, I smile in satisfaction at your wisdom about the monetary insanity, and, putting the last piece of the puzzle into place, merely remark, in typical Mogambo melodrama, “Hear me, doomed ones! It all came from debt, which comes from Federal Reserve credit, from which springs multiplication by fractional-reserve banking, which creates the debt and the money, which is how money now comes into existence! And the fractional-reserve ratio at the banks is so insane that it has financed a debt so huge, so freaking huge, so un-payably huge, so insanely, monstrously huge that no scale created by man can weigh it!”

Taking a question from the audience, “How ridiculous is the fractional-reserve ratio?” I laugh derisively and say “It can only be crudely estimated by the difference between a paltry \$798 billion in cash, and the sum total of everything else! Zillions of dollars in assets, created by an equivalent debt! Hahaha! We’re freaking doomed! Doomed! Hahaha! Welcome to the insane hell of fractional-reserve banking!”

Fractional Reserve Banking: Modigliani Lifetime Income Hypothesis

Apparently, both the Federal Reserve and their fellow American morons missed the significance of the Modigliani Lifetime Income Hypothesis, which holds that, in the particular and in the aggregate, people cannot spend more over a lifetime than they make over a lifetime. If you try to, through assuming debt and then cleverly dying before you have to pay it back, then the loss incurred by creditors will be the offset to THEIR lifetime income, proving Modigliani’s original hypothesis.

If, however, you make the big mistake of taking on more debt and then NOT dying, then you will doubtlessly notice that your future consumption will be, by the necessity of the Modigliani’s hypothesis, reduced because of your excessive current consumption.

Maybe this is why consumer credit grew at only a 2.8% annual rate, or by \$5.5 billion, in July, slowing markedly from June. I dunno.

But nevertheless, it is the inflation in prices that makes me crazy with fear, and sure enough, on Bloomberg.com we read, “Labor costs rose 4.9 percent in the second quarter compared with the 4 percent gain economists expected. Productivity rose at an annual rate of 1.6 percent after a 4.3 percent pace in the previous quarter.”

And if you have done your economics homework (which I doubt), then you know that the word “inflation” refers to a growing amount of money in existence, which only later shows up in higher prices. In that regard, Addison Wiggin, co-author of the best selling book “Empire of Debt “, remarks, “If we were to measure economic health by credit expansion, the United States has the worst inflation in history.”

And as far as actual price inflation is concerned, TheInternationalForecaster.com estimates that inflation is actually running at 10.8%!

Until next week,

The Mogambo Guru
for The Daily Reckoning

Mogambo sez: I am almost giddy with glee that gold and silver are being manipulated down like this, as it means “bargains galore!” Whee!