The Mogambo Takes On Alex Trebek

By The Mogambo Guru

04/03/06 The Daily Reckoning PRESENTS: Like many Americans, the Mogambo has envisioned himself staring up at a myriad of blue screens and triumphantly calling out: “I’ll take the Federal Reserve and Idiotic Monetary Policies for $500, Alex.” But, like most things for our masked economist, his stint on Jeopardy didn’t turn out quite as he imagined…

THE MOGAMBO TAKES ON ALEX TREBEK

I was surprised to see that Total Fed Credit was not exploding last week. I was even more surprised to see that foreign holdings of U.S. debt held at the Fed was actually down by $8 billion last week, too.

Even the banks were not making fools of themselves, as is their wont, by gobbling up huge fistfuls of government debt. It was, in one word, quiet. In the movies, when somebody remarks about how quiet it is, the hero usually says, “A little too quiet!” and the next thing you know, there are arrows and/or bullets flying all over the place.

So, I nervously remark that it is, indeed, the proverbial “too quiet,” because I know that there are enemies out there. For one thing, crude oil prices are up to around $66 a barrel, although to think that oil exporters would not factor in an increasing devaluation of the dollar into the price of oil – in the face of enormous American trade deficits, monstrous American budget deficits, stupefying rises in American business and household debt levels – is to insult their intelligence. In that regard, I will note (with a Snide Mogambo Sneer (SMS)) that they were smart enough to grab the global real estate that had most of the oil, while we took the part that is next to Mexico and South America – places so corrupt and stupid that economic refugees are flooding into the United States to get away from there!

And for another thing, bonds are rising in yield, meaning that bonds are falling in price. This means that all those billions of people around the world who own U.S. bonds lost some money and are getting ready to lose some more as interest rates keep rising. Beyond that, two other noteworthy things have happened in the last couple of weeks: The Federal Reserve has now officially stopped reporting M-3, the broadest measure of the money supply, and we have the new U.S. Treasury Statutory Debt Limit of $8.965 trillion, up by the $781 billion by Congress at the last minute. Potent stuff!

I hear a rustling in the bushes off to my right, and my trigger finger spasms. This is the economic enemy of loans/leases at the banks increasing to a record $5,569 billion, and savings deposits are also soaring to a record of $5,238 billion, yet required reserves in the banks fell to a microscopic $40 billion. Hahaha! The record low was in 2001, when required reserves sank to $38 billion, which was the “insurance” against losses in their much, much, much smaller books of loans/leases and deposits. You wanted fractional-reserve banking carried to ludicrous extremes? Well, brother, you’ve got it now!

Off to my left, I see figures furtively sneaking around, and it is the action in the U.S. Treasury Department. These guys have borrowed, in the first 24 days of March alone, almost $100 billion dollars! In three weeks! My eyes have a glassy look in them, and I am gurgling incoherently as my Puny Little Mogambo Brain (PLMB) refuses to accept the fact that the government is borrowing money at a rate that equals, on an annual basis, 10% of GDP! Gaahhh!

All of this ties in with Ben Bernanke, the new chairman of the Federal Reserve, the evil place from which Too Much Money (TMM) is magically created, which pushes prices up. This destroys economies and countries, which is the Iron-Clad Lesson Of History (ICLOH). But, this is not about how the Federal Reserve has destroyed America by creating so much money and credit – it's about Ben Bernanke. On Money.cnn.com, I read where Ben Bernanke said the "global saving glut helps to explain both the increase in the U.S. current account deficit and the relatively low level of long-term real interest rates in the world today."

I see reporters suddenly bolting for the doors and cowering under the seats, because they all think that The Mogambo is going to go Crazy Mogambo Ballistic (CMB) over this "savings glut" remark by Ben Bernanke. But, you will be surprised to learn, I am not one of those pooh-poohing this "savings glut" thing, as he is exactly right; there actually is a "savings glut!" And, it is responsible for the "relatively low level of long-term interest rates in the world today." Parsimonious foreigners are saving their money instead of spending it all like their insane American and British counterparts.

But heck, in comparison to America, even The Mogambo has a "savings glut" just because they threw me out before I could spend my last dime buying another round of tequila shooters for me and my hoodlum friends at the Hot Mama Jamma Bar, whose charming motto is: "Cheap women, cheap thrills and cheap liquor for cheap scumbags like you! No cover charge!"

This is not about how funny I looked as the bouncers tossed me into the parking lot, or how everybody laughed when they called me a "stinking pervert," but about how The Big Crazy Question (TBCQ) is, "Where did these foreigners get all this glut of money to save?" Instantly, the Lightning Reflexes Of The Mogambo (LROTM) spring into action, and I hit the answer button!

The buzzer sounds, and I triumphantly shout out the answer: "Ultimately, from the Federal Reserve, Alex! Hahaha! The Federal Reserve has created so much money and credit over the last couple of decades, that it spawned a huge stock market boom, plus a gigantic bond market boom, plus an explosive size-of-government boom, and a monstrous housing boom! All this money piled up overseas, thanks to the trade deficit! And, since we are talking about the horrible things that the Federal Reserve has done by creating so much money, it also created the 'savings glut'!"

Out of the corner of my eye I can see the cameraman trying not to laugh, and Alex Trebek sneers at me and says, "Wrong! Sorry, Mogambo, but Jeopardy rules require that your answer must be in the form of a question," and the sound-effects guy makes a rude "awwwk!" sound. And then, the whole Jeopardy audience and the other two contestants are laughing at me. My face is stinging with shame, as their hooting derision rings in my ears.

I am thinking to myself, "Go ahead and laugh, you stupid bastards! Just wait until this whole Federal Reserve/fiat money economic piece of crap explodes, and gold, silver and commodities soar! I'll be so rich that Mister Big Shot Alex 'Jeopardy' Trebek himself will be begging me, on bended knee, for some gold or silver. I'll Laugh With Scorn (LWS) and say, "Wrong! Sorry, Alex, but the Mogambo rules say that your plea must be in the form of beautiful naked ladies!" And then, I'll bend down until my nose is almost touching his and I'll scream that horrible sound at him, "Awwwk!" Finally, I will laugh – Hahaha! – and slam the door in his face!

But this is not about how I was cruelly cheated out of my chance to make some big money on Jeopardy because Alex Trebek acted like a real butthead about his precious "rules," but, rather, about the glut of savings in foreign hands. In that regard, my answer was perfect: Thanks to Alan Greenspan's 18 years at the Federal Reserve, money has been pouring out of the Federal Reserve and out of the government's checkbook into (mostly) the economy of the United States.

By virtue of the trade deficit, the money pours right back out and into foreign countries, and into the hands of people who make the stuff we are buying with that trade deficit. They then save the money. Thus, the Federal Reserve created the "savings glut!" Hahaha!

Until next week,

The Mogambo Guru
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Mogambo Sez: The unusual action of silver and gold here lately is the result of lots and lots of guys, businesses and banks on the hook for billions and billions of dollars in short sales, year after year after year. The rise in the prices of gold and silver means financial death for them, so buy silver and gold with confidence – perhaps even with a little malice against those creeps, as they can't keep it up for much longer. The prices of gold and silver will shoot to the moon when they finally give up.