Go Ahead, Make My Money

By The Mogambo Guru

02/25/09 Tampa Bay, Florida Total Fed Credit, otherwise known as Federal Reserve Credit, ballooned by a huge $76.9 billion last week, taking the Fed's total "help" to the scumbag banks to a nice, cool $1.9 trillion, of which a whopping $56 billion gob of the money created last week by the Fed was used by the Fed itself to buy Treasury securities for itself! Hahaha! What a scam!

In case you were wondering, this Fed Credit is the stuff that the Federal Reserve magically makes appear, literally at the push of a button on a computer, on the balance sheets of the nation's banks, where it sits until someone wants to borrow some money from the bank, whereupon the banks can loan out Huge Freaking Multiples (HFM) of the amount of the original credit by virtue of the scam known as "fractional-reserve banking."

And when this new Fed-created credit is lent by the banks, at that point it becomes "money", and it adds to the money supply, which expands. And since the money is used to buy something (or else why else borrow it?), it bids up prices, which is the inflation in prices that you get from an increase in the money supply! A horror!

And you don't have to take my word for it, as Mike Hewitt and Krassimer Petrov wrote the essay "Money Supply and Purchasing Power" at Dollardaze.org. They looked at the money supply since 1971 to 2008, which is "the post-Bretton-Woods period. Bretton Woods is the period that characterizes the international monetary regime between WWII and 1971. After the Second World War, only the U.S. Dollar remained convertible to gold at a rate of US$35 per troy ounce. During that period all other currencies were linked to the dollar at a fixed exchange rate. On August 15, 1971, President Nixon unilaterally closed the 'gold window' to prevent foreigners from exchanging their U.S. Dollars for gold."

What they found was a "near-perfect inverse relationship between the amount of money in circulation and its purchasing power. It reflects the simple relationship that prices increase approximately proportionately to money supply. Stated differently, it reflects the basic tenet of monetarism that in the long-run, price inflation is a direct consequence of increase to monetary inflation."

I know what you are thinking, because I am thinking it, too. We want to know, "What about the actual data? We ask because we have been listening to Ben Bernanke and all the rest of those neo-Keynesian, government lackey morons summarizing their data, and they say everything is going along just fine, and that everything is wonderful, so now we are paranoid and suspicious now that we know that we are being lied to at Every Freaking Turn (EFT)."

Perhaps anticipating our question, they write, "Looking at the data, from January 1971 to December 2008, the U.S. money supply increased 16.8 times; this was accompanied by an 81.1% drop in purchasing power of the dollar, as implied by the governmentally-reported CPI."

And how did this affect gold? I'm glad you asked, because I have been pounding the table like a demented village idiot for years that you should be buying gold, and so people want to know "Is the opinion of The Ridiculous Mogambo (TRM) as stupid as he sounds about this money inflation thing?'

My answer is, "No, not in the case of gold, but yes for most everything else I say" while their answer is, "For the same period and using the same CPI statistics, the purchasing power of gold has actually increased four times. The price of gold is up from about $38 to about $822, which corresponds to an increase in its price of almost 22 times, while the CPI is up from about 40 to 210, or about 5 times. Thus, for the period, the price of gold has increased about 22 times, while the price level has increased about five times, resulting in an increase in the purchasing power of gold of about four times; the exact increase is 310%, which corresponds to purchasing power of a little over four times" at the same exact time as "the purchasing power of major currencies is down 5-10 times." Wow!

Naturally, I am halfway out the door to buy more gold, because with the Federal Reserve, with their laughable equations based on the socialist madness of John Maynard Keynes to give them a mathematical excuse to create vastly excessive amounts of money and credit like proverbial profligate idiots, to a degree even more horrifying than during the tenure of Alan Greenspan (the moron who single-handedly got the world into this mess), gold will go up explosively, just like it already has and just like it has Every Freaking Time (EFT) in all of history – In all of history!!!! – when a stupid government continually spent more money by going farther into un-payable debt!

The sharp-eyed among you no doubt noticed the 4 exclamation points in the paragraph above, which I cleverly used to indicate extreme emphasis, as one should have gathered from the phrase "in all of history" but probably didn't, thus the punctuation was chosen for your benefit, at no extra charge. You are welcome.

So, what can we conclude from this whole analysis? I say, "Many things!"

Firstly, I conclude, "We're freaking doomed!"

Secondly, I conclude that I gotta get more gold, and from that I thirdly conclude that I gotta get rid of one or more of the kids because I can't afford both, and I can't think of a legal way, and it's a hell of a problem for me right now.

Messrs Hewitt and Petrov think that "The overall conclusion is that gold is a significantly better store of value than paper currencies" which pretty much says it all!

Whee! This investing stuff is easy!