When Fresh Money Goes Rotten

By The Mogambo Guru

05/05/09 Tampa Bay, Florida Economist Robert P. Murphy at the blog Free Advice must have heard me screeching with Total Mogambo Disrespect (TMD) about Congress and Obama deficit-spending almost $2 trillion this year, and he says, “If fiscal policy is a disaster, monetary policy is even worse.”

I interrupt and say, “You said it, dude! The inflation in prices from such an inflation in the money supply will destroy us all, probably taking the fast-food industry with it, and then where the hell will I be when I say, ‘Boy! I’d sure like a taco right now! Let’s go out for tacos! Who has any money with which to buy tacos?”

Well, Mr. Murphy is apparently not that interested in my gastronomic concerns, and notes that “Unfortunately, the issues here get very complicated, and so it’s difficult for the layman to know whom to trust. Not only do left-wingers like Paul Krugman say that we need more inflation, but even (alleged) right-wingers like Greg Mankiw are saying the exact same thing”!!!

Careful readers will note the use of the rare “triple exclamation point,” which is used in this case to indicate raised eyebrows in an expression of incredulity and scorn.

As an example of why my eyebrows are like that, Trace Mayer, J.D., in an article titled “Insane Psycho-Sociopathic Court Economists,” writes that Krugman said, “children can be taught that some problems (such as $2x + 6 = 0$) have no solution unless you are ready to invoke negative numbers. Maybe some economic problems require the same trick.” Hahaha! Negative money! Hahaha! Incredulity and scorn! Hahaha!

Mr. Murphy’s analysis? “With all due respect, those guys are crazy.”

While the enormous inflation in the money supply is already terrifying and causing me to scream, “We’re freaking doomed!” even louder than ever before, Mr. Murphy does not descend to such infantile crying and complaining, but says, “Normally, I do my best unshaved-guy-wearing-a-sandwich-board routine by showing the scary Fed chart of the monetary base. But every time I do that, some wise guy argues that I don’t understand how our banking system works, and that because of ‘de-leveraging’ we are actually experiencing a shrinking money supply.”

His answer? “No, we aren’t. It’s true that there are forces tending to shrink the money supply, but Bernanke has more than overwhelmed them.”

So why haven’t prices for necessities exploded and caused people to riot in the streets like I figure is only a matter of time, and the only people who are going to eat like kings are the ones with gold and guns?

Well, without getting into any of that, he calmly says, “Now the reason prices haven’t exploded is that the demand to hold U.S. dollars has also increased dramatically,” which he relates to the 1980s when “the Reagan tax cuts and Volcker’s squelching of severe price inflation made it much more attractive to hold dollars, and so the Fed got away with printing a bunch even though the CPI didn’t increase wildly.”

The bad news is that this is not a happily-ever-after” thing, but that “Once people get over the shock of the financial crisis, the new money Bernanke has pumped into the system will begin pushing up prices,” ending in “an avalanche as people come to their senses.”

But we have a lot of insanities to try before that, I guess, as he reminds us that Janet Yellen of the Federal Reserve “argues that if the Fed could sell its own debt, then it could drain reserves out of the banking system without unloading its own balance sheet,” which is so ludicrous that it could only come from Janet Yellen! Hahaha!

She thinks the Fed should create and sell some bonds on itself, and create the money to pay for them, which is just a variant of the idiocy that got us into the mess we are in! Hahaha!

But an even better chuckle comes from “economists Woodward and Hall” who think that “the Fed just needs the ability to charge banks for holding reserves. The Fed already (recently) obtained the right to pay interest on reserves, and so Woodward and Hall think the Fed should also have the ability to do the opposite, i.e. to be able to pay a negative interest rate on reserves that banks hold on deposit with the Fed”!

Mr. Murphy correctly asks, “How does this avert the threat of hyperinflation?” The answer is, “Simple, according to Woodward and Hall. If banks ever start loaning out too much of their (now massive) excess reserves, and thereby start causing large price inflation, then the Fed can simply raise the interest rate it pays on reserves. Banks would then find it more profitable to lend to the Fed, as it were, rather than lending reserves out to homebuyers and other borrowers in the private sector. Voila! Problem solved.” Hahaha! Either way, money pours into the system! Hahaha! We’re freaking doomed!

My stomach actually hurts from laughing that anybody who thinks this kind of crap will “work,” and I am terrified that those people vote, and yet are stupid enough to not be buying gold to protect themselves against such economic suicide!

And since I am sure that it will not work, I am buying gold so that at least one of my favorite guys (me), can capitalize on such Sheer Economic Insanity (SEI), and if you, too, buy gold, then I’ll probably see you where the rich people go to get away from all the busted-out morons who didn’t!

Whee! This investing stuff is easy!