Economics Professor Ignores Fiat Money Failures

By The Mogambo Guru

11/23/10 Tampa, Florida – Unfortunately, it is not only Robert Zoellick of the World Bank that has notoriously turned against a gold standard, but *The DailyBell* writes about similar sentiments from Nouriel Roubini, university professor, in their article "Roubini: Here's Why a Gold Standard Won't Work."

Naturally, I can't believe my eyes! The fact is that the gold standard is the only system that HAS worked all through history, and you would think that Mr. Roubini would know that! Wow!

I mean, look at the mess the world is in as a result of the use of a monstrously abused fiat dollar in the hands of the evil Federal Reserve, especially since 1971 when Nixon severed the dollar's tie to gold by refusing to pay foreign central banks for their excess dollars with gold, as France was doing.

The Daily Bell summarizes Mr. Roubini's opinions as, "A gold standard would just make business cycles more extreme, according to economist Nouriel Roubini… What's more, a gold standard would make central banks unable to fight inflation or deflation, much less do anything to combat persistent unemployment."

At this, I have to laugh! A fixed money supply will "make business cycles more extreme"? How in the hell would THAT work without some dumb fractional-reserve expansionist crapola in the banks, a fraud of bankers and banking that has absolutely nothing to do with gold?

And as for inflation, a gold standard would prevent inflation (absent banking and government frauds), and so nobody would have to "fight inflation" in the first place.

And as for unemployment, that's easy to solve; as it is just a function of wages, benefits and taxes. Abolish the minimum wage and let wages and benefits drop to market-clearing slave-labor levels of $2 an hour, and jobs will start appearing everywhere, flooding into this country.

But we were not discussing how my boss has recently computed my value to the company to be a miniscule $2 per hour, while my cost to the company is much more than that, but that Mr. Roubini erroneously thinks that a world with "A fixed exchange regime, even if it is not a gold standard" is somehow so bad that (take his word on it) it "just doesn't work."

Apparently stung by my harsh criticism, he offers the reasoning that (get a load of this!) in a world with a gold standard, "monetary policy by definition instead of being countercyclical becomes procyclical."

What? Hahaha! I laugh the Scornful Laugh Of The Mogambo (SLOTM), as (firstly) I am astonished to hear him say that monetary policy should always be countercyclical, and secondly that he is apparently unaware that the stability of the gold money supply is inherently countercyclical!

That's the beauty of the gold standard! That's the whole point of the gold standard! Overall prices don't get far out of line, inflation-wise, and they soon revert back to "normal" as prices adjust back downward after being artificially pushed upward by a previous expansion of the money supply through the expedient of bankers lying and cheating and acting like greedy scumbags.

I thought, as a professor of economics, he would know these things!

I guess that means he does know that it's the ugliness of the expansion of fiat money that is the real evil, the Federal Reserve using the creation of new money to be alternatively countercyclical when the cycle turns down and then again to be procyclical when the cycle turns up, the result being a terrifying, constant monetary expansion accompanied by the resultant constant, simmering inflation in prices that makes the general level of misery gradually worse and worse.

And growing worse exponentially, too, which means that one day soon prices will, for the first time, double in one day.

This, for your information, is the alarming part of the *Daily Bell* article where I suddenly flashed back to a panic state, like when I was in high school, and I thought that I was being given a test for which I was not only completely unprepared, but had actually forgotten all about, as the *Bell* went on, "The interviewer could then have asked Roubini what was the dividing line between classical and neo-classical economics."

I gotta tell ya; I had no idea what was the dividing line between classical and neo-classical economics! I didn't even know there WAS a dividing line! I was instantly in a panic!

In a flash of desperation, my brain instantly composed my answer, which was, "The dividing line between classical and neo-classical economics is a fascinating one, and one that has long intrigued many of the great thinkers in economics throughout history, although I can't think of any right now except Ludwig von Mises, who was sort of the founder of the Austrian school of economics and whose brilliance is gloriously at mises.org, and who is the only one who was warning against this kind of monetary stupidity as practiced by the Federal Reserve creating so much money, and the tragic inflationary and bubble consequences of such despicable monetary excesses, such as rivalries creating a dividing line between classical and neo-classical economics."

From there, I would have continued for a few paragraphs of other famous dividing lines, such as between the Yankee North and the Confederate South, the division between the Hatfields and the McCoys, cops and robbers, men and women, and how those relativly sharp distinctions make defining an actual dividing line between classical and neo-classical economic thought more of a qualitative exercise describing a continuum of theoretical advancements, and without a right or wrong answer.

I was breathing a sort of sigh of relief at having at least SOMETHING to put down as my answer, when I suddenly realized that it wasn't a test question at all! In fact, they answered their own essay question by noting that the dividing line is the development of "marginal utility," which they say "changed the nature of economics forever."

I was just going to look up "marginal utility" in the Mogambo Big Book Of Economic Stuff (MBBOES) when again the *Bell* comes through for those of us who are intellectually challenged, and explains that, "Marginal utility explains how the consumption of goods and services becomes less satisfying as they are consumed; in doing so, it emphasizes how only the free-market itself can determine the prices of these units."

This explanation shows their hopelessly pedantic nature, as the better explanation of "marginal utility" is, "The difference between how the first candy bar tastes versus how the 15th candy bar tastes after you have just consumed 14 of them, one after the other, gorging yourself like some gluttonous pig devouring the contents of the Halloween candy bowl that was meant for the Trick or Treaters."

In their conclusion, *The Daily Bell* makes the hopeful note that "It would seem to us that the interviewer is aware that there is an alternative view and is eager to solicit it. It is very possible that it is becoming more fashionable for 'mainstream' financial journalists to acknowledge Austrian economics as a sign of a certain level of sophistication in their craft."

They say this because they have noticed this elsewhere, mainly in "the friendly reception that hard-money proponent Congressman Ron Paul often receives in mainstream financial interviews. Honest money seems to be coming back into vogue after a 100-year hiatus. We dearly hope this is a developing trend."

So do I! And that is yet another reason, as if you needed another reason in addition to the other trillions and trillions of reasons, to buy gold, silver and oil in response to the inflationary policies of the Federal Reserve, an investment decision that is so obvious that even to think of it is to giggle with delight, "Whee! This investing stuff is easy!"