

The Derivatives Market Monstrosity

By [The Mogambo Guru](#)

12/23/10 Tampa, Florida – I assume that you, as an intelligent person who understands that the treacherous, greedy, vampire banks creating so much excess money means We're Freaking Doomed (WFD), are Up To Your Freaking Ears (UTYFE) in gold, silver and oil, and you have had it UTYFE with your family always complaining about how you spend all the family's income on gold, silver and oil instead of luxuries, family vacations, adequate food, clothing, medical care, dental care, blah blah blah, the list goes on and on.

But what you really, really want to know is: How did we get into this mess?

In that case, I present the Buttonwood column of *The Economist* magazine.

Some guy who read an economics book a long time ago, but hasn't learned a thing nice, laughably wrote, "It is an economic truism that savings must equal investment." Hahaha!

See? I told you it was laughable, as I handily proved by laughing! Hahaha!

You'd think that the editors of *The Economist* would have heard me laughing about it and ask, "What is so funny?" and yanked it! Hahaha!

To be fair, it USED to be an economic truism, prior to 1971, that savings must equal investment. And it was a truism because with a gold standard, the money supply was obviously a relative constant, and so if you wanted to get your hands on some money to invest, you had to borrow it from someone who already had some money.

Enter, stage left, the savers. Their money was being saved in the banks, and with the banks acting as an intermediary to judiciously loan it out as an investment, at an interest rate that cleared the market, paying the depositors a small fee from the proceeds, and keeping the rest for themselves. Classic stuff.

All that changed in 1971 when President Richard Nixon declared that the dollar was no longer backed by gold, and so all those foreign nations who were growing distrustful of the dollar because we were creating so many of them, and were literally exchanging their dollars for gold, were told, "Screw you, you worthless foreign bastards! You got paper dollars and you'll keep paper dollars! And if you don't like it, too bad! Hahaha!"

The result was the gradual debasement of the dollar by the Federal Reserve ever since, as it continually created more and more credit and fiat money, which continually inflated the money supply, which made prices continually creep up and up.

As if inflation was not bad enough, a lot of that money (about \$14 trillion) went towards loaning money to buy government bonds so that foul, corrupt, fiscally irresponsible Congresses could spend money they did not have! Gaaahhh! The worst of both worlds!

Even worse, a lot of the Fed's new money also went into bubbles in stocks, bubbles in bonds, bubbles in houses, bubbles in derivatives, and a huge, suffocating bubble in the size and cost of local, state and federal governments.

And let's not forget the derivatives market, which is so gigantic that it staggers the imagination! How large? Thought you'd never ask!

The Financial Times, as part of a story about the changes coming as a result of the Dodd-Frank financial reform bill, refers to "the \$583,000bn privately-traded derivatives markets, as mandated by the Dodd-Frank financial reform."

Now, in case you are not immediately familiar with computing "billions of billions," the number "\$583,000 billion," which doesn't sound too bad, is actually the terrifying sum \$583 trillion, which is significant in that the total GDP of the world – and I am talking about the total annual output of goods and services by everyone in the Whole Freaking World (WFW) – is only about \$65 trillion!

This means that the derivatives market, alone, is 900% bigger than global GDP! Gaahhh!

And as unbelievable as it is to say, that monstrosity is just one of many, many weird, weird, bankrupting, bankrupting things that happened, happened because the world's central banks created so, so much, much money for so, so long long.

And all of that is exactly why buying gold, silver and oil is such an easy decision to make, and so deliciously guaranteed of capital gain, that you happily exclaim, "Whee! This investing stuff is easy!"