No Reverse Gear

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I have, contrary to popular belief, not been at the golf course getting drunk and obnoxious, as my wife thinks. Nor have I been at the golf course learning to be more cold, irritable and distant, as my children think.

Nor have I been at the golf course waiting for some drunken, near-sighted, dimwitted talent scout/agent to walk by, notice my fabulous swing and winsome personality, and make me an offer of unbelievable money and fame, as I think.

In fact, I have not been at the golf course much at all, which explains why I really, really suck at golf, which is, at the root, the shame of it all.

The fact is that I have been working, working, working, feverishly holed up in the Mogambo Bunker Of The Screaming Heebie-Jeebies (MBOTSHJ), consumed by a terrific book by Nicholas Wapshott titled “Keynes Hayek,” with the subtitle “The Clash That Defined Modern Economics.”

In case you want to know, the crux of their disagreement turns out to be that John Maynard Keynes thought that unemployment was worse than inflation, Friedrich Hayek thought that inflation was worse, Keynes advocated government deficit-spending and its increase in the money supply as a cure for an economic downturn, despite the inflation he admitted it would cause, while Hayek didn’t want such government intervention because it would cause inflation in prices, which makes everything worse, including unemployment, and if left alone, the economy would right itself like it always has in the past, after bad/stupid investments went bad, money was lost, prices fell, people got smarter, freed-up resources are taken up by better investments, and the economy rose, again, Phoenix-like, from the ashes, solving the unemployment problem without inflation in prices.

Keynes’s argument was that there was a “multiplier,” and it worked like this:

The government borrows a dollar and uses it to hire a man to dig a hole.

The man goes to the butcher to get some meat, and spends the dollar.

The butcher goes to the baker to get some bread, and spends the dollar.

The baker goes to the tailor to buy some clothes, and spends the dollar.

The tailor loses the dollar. (In reality, the money was nibbled away at each step by taxes and expenses (on which someone else will pay the tax), but with the same, sorry ultimate effect; all the original stimulus money is gone).

This is Keynes' famous argument of a "multiplier"; four men each got a dollar from one dollar of government spending! It seems like magic!

The unanswered question is, of course, "How will this new debt be paid off?" It was never really answered by anyone in Mr. Wapshott's book, except for the usual vague references to how it will somehow be paid "by the economic expansion."

So, intrigued, I started, after all these years, spending hour after hour, day after day, again going through Keynes's mostly-ridiculous book, "The General Theory of Employment, Interest and Money."

It's still a long, confusing, slow slog, through which I bravely and laborious suffered, even though I now (after finding the Austrian school of economics, the one true economic theory) find something with which to disagree and disparage on almost Every Freaking Page (EFP).

But the question is never answered by Keynes, either, nor even really asked. Namely, "How does the additional dollar of debt get paid off?"

Keynes' glib answer, which has been apparently accepted by everybody since then, was that it would be paid by the increased taxes resulting from the economic expansion.

After a long study, I have concluded that it is mathematically impossible, as Keynes's famous "multiplier" produced by an increased money supply also works as a multiplier when the money supply is reduced by a dollar as the debt is paid off: four people each got a dollar less income!

This makes four dollars of lost income for each dollar of reduced debt!

And that's why no debt will ever be paid off: The economy would not grow with such a drastic drop in the money supply.

As proof, I merely have to show that, in fact, no national debt has been paid off since 1930.

To wit: According to USEconomy.about.com, in 1929 the national debt was $17 billion and GDP was $104 billion, for a debt/GDP ratio of 16%.

In 1934, as the foul and idiotic Keynesian Revolution and Roosevelt's desperation started cranking up in earnest to infest academia and government deficit-spending, the national debt was $27 billion, but GDP was down to its low of $66 billion, a ratio of 41%. Yikes! Not an auspicious start!!

The idiotic government continued this stupidity year after year, continuing to where we now look at the brink of WWII, 1940. In 1940, we were $43 billion in debt and a $101 billion GDP, for a debt/GDP ratio of 42 percent.

By this time, you would think somebody would say “Hey! This is NOT working!”

I mean, after a full eleven years, GDP had only limped almost back to where it was in 1929! Zero gain in GDP, but now saddled with another $26 billion in debt, 53 percent higher!

Now, if you have ever watched old war movies or the History Channel on TV, you know that things changed. Big time. WWII happened.

Going on a war footing, at its height of WWII in 1945, the debt had sextupled to a whopping $259 billion, while GDP went up to $223, for a debt/GDP ratio of 116%. Debt was, alarmingly, more than GDP! But we were at war, so…

Suddenly, being the gracious host that I am, I lighten the mood because I notice that you suspect where this is headed, and are pretty freaked out about it, as you should be.

So I cleverly distract you and entertain you with a related Trivia Question: When did the national debt total more than $1 trillion dollars? Answer: 1982.

When did the debt get over $2 trillion? 1986.

$4 trillion in 1992, $5 trillion in 1996, $6 trillion in 2002, $7 trillion in 2004, $8 trillion in 2006, $9 trillion in 2007, $10 trillion in 2008, $11 trillion in 2009, and then both $12 trillion AND $13 trillion in 2010, $14 AND $15 trillion in 2011, and $16 trillion in 2012.

Now, here at the end of the first quarter of 2013, debt is a strangling $17 trillion, against a $15.7 trillion GDP, for a ratio of 108 percent.

So, in my brilliant summation, I excitedly jump up and down like a demented puppet, arms waving wildly, screaming “This is total –total! – failure! Failure! Anybody who is still a lowlife Keynesian, in light of these horrific results after 80 continuous years of it, is a complete and utter moron!”

And to make it worse, both Keynes and Hayek were right about one thing: Constant inflation in the money supply caused constant inflation in consumer prices, causing people to suffer deprivation and misery, every step of the way, week after week, month after month, year after year, some because their income increases lagged inflation increases, and a lot of people suffered because they did not HAVE any wages to start with.

All they had was higher prices.

But, sadly, the government can’t stop now because of the reverse multiplier effect and especially because government spending has grown to literally BE the economy.

Thus, price inflation will always be high.

Thus I say, disproving those who think this whole essay is stupid and pointless ("And boring!"), that inflation in prices will be roaring, and thus gold, silver and oil are the Fabulous Mogambo Triumvirate Of Wealth (FMTOW).

If you disagree, then you must be a Keynesian chump, destined to fail, ending up bitter and broke.

Better you should agree with the FMTOW, ending up happy and rich! Whee! This investing stuff is easy!