

Malinvestment, Thriftlessness & Speculation

By [The Mogambo Guru](#)

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For this week's exciting episode of the Mogambo Walk Down Literature Lane, we thank Philip Spicer, a real nice guy who apparently has more money than he knows what to do with, since he reached down into his own pocketbook and sent me a copy of the book/pamphlet entitled "Fiat Money Inflation in France," and since there are no graphs or artwork or pictures or illustrations or anything that I can color in with my crayons, he knows that I will probably not read it and will just throw it on the pile of books that I ain't read either, because THEY ain't got no pictures neither.

But he was wrong. I did read it, and I am glad I did, as I was desperately searching for something about which to write, and I did not want to resort to more long-winded stories about how the government is out to get me, and how when I was your age everybody and everything was better than today, or simply begging for people to send me money in the vain hope that somebody would actually send me a few bucks so that I could get the professional help that I so desperately need, or maybe some snazzy new mag wheels for the car.

Anyway, a guy named Andrew Dickson White was a real smart guy who was born a long time ago in 1832, got a good education, established Cornell University, and died in 1918. In between birth and death he wrote a lot of things, since he had a lot of time on his hands because sex, drugs, rock and roll and downloading pornography off the Internet were not invented yet, and one of the things he wrote was "Fiat Money Inflation in France."

Andrew Dickson White: Storming the Bastille

Now this is an interesting little book, although it is referred to as a "short essay," and at 120 pages it is an obvious indicator that they used to be a lot more long-winded in those olden days. So interesting, in fact, that the foreword is by Henry Hazlitt himself, and who writes that White's essay is relevant because "...the course of inflation everywhere – economically, psychologically, politically, and morally – does in fact follow the same pattern."

I will now provide my executive-summary version, provided to you here and at no extra cost to you because I know how busy and important you are. Here it is: the French stormed the Bastille on July 14, 1789, and then they began to issue more and more money, and by 1797 all the money became worthless because prices had climbed so high, thanks to the massive over-issuance of currency, and the whole country spent the whole time turning into a bigger and bigger hell-hole, until Napoleon rose to power and turned Europe into a killing field, and then the French resorted to merely being rude to people who spoke English, and they have been like that ever since.

To those who prefer the long version, well, I can only feel pity for you, but it follows, too. Inflation comes from the idea, both back then and right freakin' now, according to the jackasses

at the Fed, in the Congress, on Wall Street and every damn where you turn, that monetary inflation was a good thing, and that prosperity can be assured if there is enough money circulating. The reason this may seem slightly unfamiliar to you is that, today, the idea is presented not as “inflation is a good thing,” but as “preventing deflation is a good thing.” In the olden days, they didn’t say it so expressly either, and the idea was explained as “increasing the circulating medium.”

You say to-may-to, and I say to-mah-to.

Andrew Dickson White: Poisonous Effects

To quote Henry, “The broad pattern of all inflations, historical and modern, is the same. The first result is commonly the ‘recovery’ that the inflationists, like others, are seeking. It is not until later that its disappointing and poisonous effects become apparent.”

And what are these poisonous effects? I thought you’d never ask! And the reason I am so delighted that you did ask is that I do not have to rack my little pea-brain to come up with something either original, cogent or thoughtful, even assuming that I could do such a thing even if I wanted to, and there is a growing body of evidence that I can’t, and like the lazy bastard I am I will merely quote Mr. Hazlitt extensively, yet again: “This is because the kind of production stimulated by inflation even at the beginning is an unbalanced production (owing to the money illusions that inflation creates) and because inflation finally encourages merely malinvestment, thriftlessness, speculation, and gambling at the expense of production itself.”

We have been in the throes of monetary inflation by the Federal Reserve for decades, so let’s take a look, and see if we can find any evidence of these things. Do we have, umm, looking at the list, malinvestment? Yep, and in spades! There is excess capacity everywhere, and a huge, strangling system of government, too, which is malinvestment writ large! Do we have thriftlessness? Yep! The savings rate is roughly, checking the dipstick which is showing we are much more than a quart low, effectively zero. Do we have speculation? Yep! Guys are right this minute buying stocks that have P/E ratios at multiples seen only in at market tops and in the wildest dreams of brokers and issuing corporations on the idea that they will be able to flip those stocks to some other sucker and make a fortune in the process!

Well, then, how about gambling? Do we have gambling? Yep, as you can hardly walk down any street in the nation and not bump into a lottery machine or some pathetic guy stumbling out of a casino with his pockets turned inside- out and empty.

Andrew Dickson White: The Royal Screw-Job

White writes that even back in the eighteenth century, “They knew too well...the difficulties and dangers of a currency not well based and controlled. They had then learned how easy it is to issue it; how difficult it is to check its over-issue; how seductively it leads to the absorption of the means of the workingmen and men of small fortunes; how heavily it falls on all those living on fixed incomes, salaries or wages; how securely it creates on the ruins of the prosperity of all men of meager means a class a debauched speculators, the most injurious class that a nation can

harbor; how it stimulates overproduction at first and leaves every industry flaccid afterwards; how it breaks down thrift and develops political and social immorality.”

Now, being the big-hearted and truly wonderful person you are, you are obviously horrified that such things could happen on your watch. Especially that part about being flaccid afterward, an attention-grabbing word that I think he used on purpose because flaccid and wasted is usually what happens after you get the royal screw-job.

And if there is one thing in economics that can legitimately be called The Royal Screw-Job, it is inflation.

In one of the tiresome paragraphs above, I don't know which one, and I don't want to go back and look because I am as tired of reading this scary stuff as you are, I'm sure, we were looking for evidence of malinvestment, thriftlessness, speculation, and gambling. And we found them. Now, let's you and me, since we seem to have a lot of time on our hands, see if we can find examples of these other things that White mentions, too.

First off, do we find evidence of “how easy it is to issue it; how difficult it is to check its over-issue”? Well, my curious little grasshopper, let's take a look at the monetary base, and debt growth, all of which came from credit growth, and for that we look to the Fed. With the greatest of ease we can find an almost infinite number of statistics, and they all say that, yes, it appears that it IS easy to issue, because they keep issuing exponentially more and more of it every day, and I have yet to read in any newspaper how the employees of the Fed are complaining about how difficult their jobs are.

Thus, we conclude that it is also not only “difficult to check its over-issue,” but it appears to be impossible!

Andrew Dickson White: Tax Credits

Next, let's see if we can find examples of how inflation “leads to the absorption of the means of the workingmen.” For that, we simply note that there are now tax credits, especially the Earned Income Tax Credit, for those who work full-time but are STILL so poor that they are living in stark poverty! And why are they living in stark poverty? Because, obviously, inflation has raised prices so high compared to wages, you dummy!

Jeez, pay attention, will you? Prices are now so high that somebody who works full time cannot escape living in poverty, a poverty so dire that the government is taking tax revenues to give to that poor, pathetic person as a salary supplement to keep them from starving to death in the street! And there is also a freaking tax credit for people to pay for baby-sitters, so that they can afford to even go to work, to earn the damn EITC!

Therefore, I would definitely say that inflation “leads to the absorption of the means of the workingmen.” And for the same reason, the exact same damned reason, “how heavily it falls on all those living on fixed incomes, salaries or wages.”

Well, how about “it creates on the ruins of the prosperity of all men of meager means a class a debauched speculators”?

Raise your hand if you are buying the S&P 500 at the current P/E of 35. Raise your hand if you are loaning your money at yields that are the lowest in more than forty years, and on the idea that yields will keep going lower and lower. Raise your hand if you are buying houses at these outrageously high prices on the idea that you can sell it in the future and make a handsome profit.

Now look at your hand. If it is holding a candy bar, you are fat. If you are holding somebody else’s hand, you are in love. But if it is up in the air, you are a speculator, and thus you are the guy that White, who was a professor, who founded a University, who is a real smart guy, thinks is the worst person in the world.

Nyah nyah nyah!

Andrew Dickson White: Look Around

Proceeding along, we take a gander at how inflation “stimulates overproduction at first and leaves every industry flaccid afterwards.” Well, look around you!

Not only did we have overproduction, but we had the attendant over-consumption, too, which you would expect from Say’s Law. At least, in eighteenth-century France, they at least had pent-up demand, since apparently all the common people had was filth to eat and rags to dress in, but, on the bright side, they had plenty of both. Do you, or anybody you know, have a garage or spare room or rental storage unit or attic or cellar that is not filled to bursting with stuff? So we had over-production in the proverbial spades, over-consumption in those same spades, and we are having flaccid industry now, and that is why the Fed is doing what it is doing. And why France did what it did.

Getting to the end of the list of the horrors of inflation, we take a look at the last two, “how it breaks down thrift,” which is reflected in the savings rate of Americans, and “political and social immorality.”

I will leave it to you, as your homework assignment, to write a two-hundred word essay about the political and social immorality you see all around you. And remember, as usual I will award massive amounts of extra credit if you can find any example that is NOT characteristic of the Democrat or Republican parties, because it would demonstrate a depth and breadth of knowledge on the level of “savant.”

Some of these quotes of White seem to be, eerily, written today, instead of the early nineteenth century. To wit, “For at the great metropolitan centers grew a luxurious, speculative stock-gambling body, which, like a malignant tumor, absorbed into itself the strength of the nation and sent out its cancerous fibers to the remotest hamlets.” I think the term “luxurious” is apropos when applied to the NYSE, given that Dick Grasso, the titular head of the corrupt NYSE, gets paid at least \$10 million a year to merely prance around looking ridiculous and officious.

But getting back to the point, I note that, sure enough, as somebody who lives in a remote hamlet, there is no person or thing anywhere around here that is not intimately connected to the stock market and its “speculative stock- gambling body,” usually by virtue of having IRA’s and 401(k)’s.

And what of the future? Well, White maintains that the only thing preventing the mass starvation of laborers in France was that they were drafted into the military and sent off to be killed in wars. So, extrapolating, perhaps we have starvation and getting killed in wars to look forward to. How special.

Andrew Dickson White: Creating Money

And the French in those days, showing how some ideas are so universally bad that they cannot be killed, also called for higher taxes on the rich. And then finally they hit upon the idea that there was actually no need for taxes at all! The government could simply print up as much money as it wished to pay for whatever it wished! And here I am reminded of the massive amounts of debt that is being issued by our government, and the massive amounts of money that the Fed is creating to buy that massive amount of debt, even as we speak.

So what can you do? Again, as remorselessly as ever, I quote extensively, that towards the end of the relentless expansion of money that “...the paper money was almost exclusively in the hands of the working classes, employees and men of small means. Financiers and men of large means were shrewd enough to put as much of their property as possible into objects of permanent value.”

Hmmm. Objects of permanent value. What could that possibly mean?

Of course, there were always rays of hope shining somewhere. “From time to time there was a revival of hope caused by an apparent revival of business; but this arrival of business was at last seen to be caused more and more by the desire of far-seeing and cunning men of affairs to exchange paper money for objects of permanent value.” Again with those mysterious “objects of permanent value.”

The French ended up their inflationary period with Napoleon. The Germans ended up theirs with Hitler.

Sorta makes you wonder who we will end up with, doesn’t it?

Regards,

The Mogambo Guru
for The Daily Reckoning
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P.S. Mogambo Sez: Destruction and Living Hell are, according to this map, just down the road a piece. I can’t tell how far, since the scale of the map fluctuates.