

Under the Economic Sun

By [The Mogambo Guru](#)

10/27/03 There may be nothing new in Economics Land...but the Mogambo Guru educates us in lessons of old.

The Fed has now jumped back into the fray, increasing total credit by \$7.8 billion last week, although the trend in increases seems to be somewhat flat here lately. Even the foreigners who have their holdings at the Fed stepped back from the plate a little. I'm just naturally suspicious that maybe they thought the potential bad press, "Foreign custody holdings go over one trillion!" was too scary. Or it was a fluke. Or some other reason.

And if you think that foreigners accumulating so many U.S. assets and claims on assets is not so bad, then I turn my eyes and stare directly into your soul, and I see that you think those old aphorisms of "Neither a borrower nor a lender be" is a load of hooey. And you think that those old sayings about how the lender comes to hate the debtor, and vice versa, are also a real hoot. And you forget that that preachy old Aesop fellow probably had some moral in a story about bees and ants, or squirrels and grasshoppers or lions or something, anthropomorphic animals borrowing something from some other bee, or ant, or squirrel, or grasshopper, or lion. And then can't pay. And then gets eaten.

And there are, of course, many, many more references in all of classical history and literature, all the way back to 10,000 years ago when Og borrowed some clams from Caveman Mutual to buy spear points, and of course the classical wipeout when the bank went belly up is all part of history now, or it would be if it weren't censored out of the history books by the government.

Creating Inflation: The Tale of the Borrower and the Lender

But, and this is the first important part that I want you to take away from our little chat together, one of the constants in the universe is that the Tale of the Borrower and the Lender, in whatever incarnation it takes, always has an unpleasant ending. Always. In fact, I shall call it the Always Unpleasant Ending Effect, which we will refer to as AUEE, or better yet the Mogambo AUEE, which you can further shorten to MAUEE, which is a pretty good phonetic spelling of where I am going if this AUEE thing works out with me winning the Nobel Prize in Economics next year like it should, and when they hand me that cool million bucks, man, like, I'm outta here. I mean, the subtle hostility of sullen and angry neighbors is one thing, but to have to listen to people trying to exorcise demons out of my house by chanting is getting to be pretty unnerving, and so you can see I really could use that Nobel Prize money.

The big problem with economics is that there has been nothing new under the economic sun for thousands of years. There has always been a Borrower and a Lender. There has always been government, and taxes, and buying and selling, and borrowing and lending, and investing and interest, and sleazy powerful people enriching themselves, running off into the night with the company payroll, and bosses sexually harassing employees, and of course graft, and corruption,

and nepotism, all those relatives needing favors and jobs, and friends needing favors and jobs, and so on. It wouldn't surprise me to find that this is actually where the phrase "some things never change" comes from. And all of them trying to live, as has been said many times, at the expense of everybody else.

The only variable that makes the big difference in the long-term economic health of a nation has been (pause for effect) the nature of the money. When money is something that the government cannot, or will not, depreciate by over-issue, then everything is fine, and the economy burbles along with attenuated booms and busts.

But burbling aside, borrowing from the savings of the people who save money is inherently self-limiting, and pretty soon all the available savings have been borrowed and spent, and then interest rates rise due to the smaller supply of loanable funds, businesses slow down, a recession ensues, the idiot businesses die and the strong businesses find a way to hold on, people start saving their money again, prices fall to some more reasonable value, and then the cycle starts all over again.

Creating Inflation: Bustlets

That's why the busts in the old days were usually concentrated little 'bust-lets,' more appropriately characterized as a few people getting their fingers burned from being greedy and stupid, with lots of innocent little people having to pay a price, as they always do. Yet the nations always survived, and went on making progress from there.

But today everything is different, and the sky is suddenly dark with ominous clouds, and very low notes from some hidden organ lets you know that something spooky has appeared. You look out of the window and you see buzzards sitting on the bare branches of long-dead trees, and everything is colored in shades of gray and black. The voice-over sounds eerily like Vincent Price saying, "When money, the delicious blood of life, is conjured up by mad scientists in forbidden laboratories in secluded castles late at night, or printed up in state-of-the-art modern printing and engraving facilities of a mindless, zombie-like government body, then a strange, forbidden, and very dangerous voodoo alchemy will cause rips in the time-money continuum, and dead economists will rise from their graves! Their ghosts will be angry and vengeful, and they will torture you with all the pains and horrors that only over-issuance of money can cause!"

This is nothing new at all, and that is why the Founding Fathers were so careful to include in the Constitution, in black and white so there would be no mistake, that money shall only be silver and gold, because the government cannot depreciate the currency by printing up more silver and gold. And therefore the time-money continuum should never be ripped open, and vengeful specters should not rise from their graves to haunt and vex us, and macroeconomic idiocies would not be committed, and I would not have anything to write about, and then I'd have to end up getting a real job, and then I'd end up getting fired because I'm an idiot, and then I'd end up committing some crime out of my frustration and constant failure, and then go to prison and be a burden on the rest of society until I died, many years later, old and bitter.

So amid the gloom, doom and imminent onslaught of vengeful specters, why does the stock market go up? One reason is that the central banks of the world are financing the whole mess by flooding the system with money, and so that damn money has to go somewhere. And where the heck do you put that much money? I helpfully suggested that I would be happy to store a bunch in my basement, and even guys from outlaw biker gangs are afraid to go down there, so it is certainly safe. But no dice.

Ergo, the big-ticket items like the stock market, the bond market and the world's real estate are the easiest places to go, and so, like water and electricity finding the shortest way to lower ground, that's where the money goes. And price doesn't matter anymore, because tomorrow there will be another big bundle of money coming, and it has to go somewhere, too. And then the day after tomorrow, there is going to be another big bundle of money coming that has to go somewhere...

Creating Inflation: Screaming, Roaring Price Inflation

And I gather from this consensus opinion of the world's biggest hotshots that if everybody inflates their money supply at the same time, then the resultant, roaring global price inflation won't matter, because roaring inflation in stocks, and the blistering inflation in bonds, and the screaming inflation in houses, and the soaring inflation in every freaking other thing in the whole economy, will be all hunky-dory with them, because everybody is in the same boat.

And it certainly fights the Fed bogeyman of deflation, which in this case means keeping the absurdly over-priced, over-valued, over-subscribed, over-leveraged assets of any kind from falling so much as one red cent in market price, and the government stands ever-ready to finance any buying, by anybody, at any time, for anything, if it is for a higher price, which keeps prices from going down. The ultimate in government control of the economy!

But, in the final analysis, the government is actually creating inflation, the one thing that is most feared, so that the current prices of overpriced assets will keep inflating! This doesn't sound insane to you? Huh? How can it NOT sound insane? To even espouse such a mentally ill notion is nothing more than having a raving lunatic at the controls. And when you examine the rules and regulations of the railroad industry, for example, you'll find that there is an actual prohibition against using insane people as locomotive engineers. Fortunately for Greenspan and the Fed, our central bank and government seem to have no such prohibition.

Regards,

The Mogambo Guru
for the Daily Reckoning

October 27, 2003

P.S. The thing that survives and prospers is gold. And so when the government finally has its back up against the wall, and it will, and gold soars in price to levels undreamt of, prices that never appeared even in my most magnificent and greedy dreams, which usually involves an eager-to-

please Barbara Eden, starring as the genie in "I Dream of Jeanie," granting one of two wishes to me, starring as Maj. Anthony Nelson, handsome and brave and single astronaut, these gold-owners will probably be the people the government comes after.

The reason I bring this up is that Marc Faber, author of the infamous Gloom, Boom and Doom report, warns – and this is the second warning like this that I have read in the last week alone – that maybe the government will end up confiscating gold, again, since they have already demonstrated that they have the power and willingness to do that. It is a concern, all right. But they give you dollars for it, so they are not actually confiscating it from you. They are forcing you to sell it to them, and get a fair and just number of dollars for the gold. This is the Fifth Amendment prohibition against a ‘taking’ without just compensation, that is in the Constitution, thank God. But, there you are with dollars, the one thing you didn’t want.

The added worry, for me, is that this Supreme Court has already amply demonstrated that they are willing to misinterpret and/or ignore the Constitution according to their wishes, and they will allow new things for the federal government to meddle in, tax, regulate or confiscate. After all, they are already on record as making anything they figure may be in the temporary common good, or suits their tastes, or satisfies their private agendas, suddenly Constitutional. And things that they don’t like are un-Constitutional, to add a little symmetry to their do’s and don’t’s. So, one may assume, even if you are not even fractionally as paranoid as I, that the prohibition against ‘takings’ is just another part of the Constitution that is now just, alas, pretty words. It’s a worry, alright.