

Banks and Buttheads

By [The Mogambo Guru](#)

10/11/04 Attention! The Mogambo Guru has activated his Mogambo Distress Emergency Signaling Device to warn us of the evil plans the Federal Reserve has in store for unsuspecting Americans.

A new published study by two current and clueless Federal Reserve buttheads (Bernanke, Reinhart) and one previous one (Sack) has shown – surprise – that they are doing a wonderful, fabulous job, that everything is just peachy, that they are all much more handsome and smart than everybody else and that we are all stupid.

Well, maybe not you and your gigantic brain, but they say that they are smarter than the Mogambo, although they do not mention me by name, but you can tell that is what they are thinking.

In particular, the thrust of their precious little self-aggrandizing study shows that when the Federal Reserve threatens to act like profligate, inflation-stoking morons, the threat of deflation goes away! Well, duh!

John Mauldin is a guy that not only puts out Thoughts From the Frontline, an economic newsletter, but takes his responsibilities so seriously that he actually reads things like this Fed paper. He's not like me, sitting around getting really drunk all the time, watching Cartoon Network and whining about how I never can seem to get ahead in life no matter how hard I try. As soon as I sober up a little bit, I am going to call him up and thank him, because he provides a quote that explains, in totality, the entire idea behind Modern Economic Theory As Practiced by The Moronic Federal Reserve and All the Other Little Dirtbag Central Banks Around the World Who Are Equally Moronic.

First off, the authors provide a little economic background, and they say, "Central banks usually implement monetary policy by setting the short-term nominal rate, such as the federal funds rate, in the United States."

Federal Reserve Economic Theory: No Bearing on Rates

So right off the bat, they are letting us know that the supply/demand dynamic in the banking business, the same one that has served American businesses so well that we came to dominate the whole freaking world for most of a century, has no bearing on rates anymore, mostly because we carbon blobs out here in the real world are not as smart as Federal Reserve people, and we can't be trusted to make decisions about how much interest we are willing to pay or at what rate we insist on being paid for the use of our money.

To show you how wonderful they are, they continue, "However, the success over the years in reducing inflation and, consequently, the average level of nominal rates has increased the

likelihood that the nominal policy rate may become constrained by the zero lower bound on rates."

Well, they have their opinion that they have had "success" in reducing inflation (by rejiggering how they measure inflation, known to us out here in the real world as blatant lying), and I have my opinion (by actually looking at prices) that they did no such thing and in fact have caused persistent, grinding inflation, which is the exact opposite of what they are supposed to be doing.

But beyond that, notice that they say that (and you gotta pay close attention here) they deliberately pound money into the banking system to force rates down, and somehow this genius at monetary policy has resulted in lower rates! Wow! Amazing!

Federal Reserve Economic Theory: They Can Create Money

But they do not want to get into a discussion about that. They just want us to concentrate on the fact that they are the banks, and they have the power to create so much money that rates and the economic fate of the United States are just playthings to them.

But the Mogambo is not able to calmly educate you right at the moment about how stupid this is as my loud, obscenity-laced angry denunciation of this whole Bernanke thing is (so they say) a violation of my parole or something. And as they are dragging me away kicking and screaming, I whip out my Mogambo Emergency Distress Signaling Device (MEDSD) and – beep beep beep – summon Ludwig von Mises, whom we Austrian economists revere as the Father of Economics, to step in for me. Even though he is now deceased, he is likewise so angry that he opines, literally from beyond the grave, that this is nothing new:

"Credit expansion is the governments' foremost tool in their struggle against the market economy. In their hands, it is the magic wand designed to conjure away the scarcity of capital goods, to lower the rate of interest or to abolish it altogether, to finance lavish government spending, to expropriate the capitalists, to contrive everlasting booms and to make everybody prosperous."

But as wonderful as this sounds, von Mises makes sure that we do not miss the important point that there is still no free lunch, and that this Fed program is just something that creates the rope with which we will be hung by the neck until we are dead. He says, "There is no means of avoiding the final collapse of a boom brought about by credit expansion."

Kurt Richebacher shows where all this money comes from and where it goes. "Asset price bubbles arise when money and credit expand well in excess of economic activity. The excess money winds up in the financial markets, propelling asset prices to unjustified and unsustainable levels completely out of proportion to the general price level. In this way, U.S. stock valuations over the last year went from ridiculous to insane." And not only that, but houses are now so expensive that only a minority of people can afford one.

Federal Reserve Economic Theory: Execrable

But this execrable paper is revelatory, in that they reveal their entire theory of economics, and in just a second, if you keep reading, you will realize why I used the term "revelatory" to describe it. If you lower rates, then aggregate demand will always be stimulated! It's their whole cockamamie idea in a nutshell! They actually believe, without a single, tiny shred of evidence to support it, that aggregate demand will always be stimulated by lower rates! Always!

They actually believe, which shows just how insane they are, that there is no set of conditions in the known universe where you will NOT consume and keep consuming with both hands, if rates are lowered! You could be up to your ears in debt, frantically filling our bankruptcy papers and fending off creditors who are beating down the door demanding payment with one hand and with the other hand, theoretically, calling a 1-800 number to order a jeweled water bowl for your dog or something! Hahahaha! I am here to tell you – and you might want to write this down because this is another Fabulous Gem of Economic Wisdom That Spews From the Mouth of the Mogambo (FGOEWTSFTMOTM) – that this is one gigantic load of crap.

And not only that, but we are treated to the awesome stupidity (and I am shaking my head in disbelief, resembling a wet dog that has crawled up out of the water and my ears are comically going flappa-flappa-flappa) that they think that inflation is the inverse of money creation! The more money you create, the lower inflation gets! Hahahahaha! Their arrogance is so unbounded that they are not the least deterred by the evidence that this has never happened in history and that it is directly contrary to long-established fact.

These buttheads (and notice that Bernanke and butthead both start with the letter "B") say that the entire 5,000 previous years of the history of economics is wrong and just because rates and inflation always eventually went up after all the other central banks created so much money, that was just an anomaly! They are saying that now, for the first time ever, their theory is finally being proved! Hahahaha!

But they don't want to talk about that, as when I call them up and demand, "Put that jackass Bernanke on the phone immediately because I am going to straighten his little butt out about a few damned things!" they put me on hold, and then after awhile, they come back and tell me that he is not in the office, but that they will be happy to take a message and that he will call me back. But he never does! Never! See what I mean? They don't want to talk about it!

No, what they want to talk about is what happens when, after they have been dropping rates and dropping rates and dropping rates and nothing happens, they decide to drop rates to near zero. Oh, not the GOOD things that happen, like when you are able to buy more stuff because prices are lower. They don't mention that part. They say that there are BAD things that will happen, and this is where they reveal the idiotic underpinnings of their whole stupid theory of economics, which I will obviously call Their Whole Stupid Theory of Economics.

They write, and here they admit that the crucial assumption underlying their whole theory of economics is, actually, wrong: "When that happens, a central bank can no longer stimulate aggregate demand by further rate reductions and must rely instead on 'nonstandard' policy alternatives."

There! They admit that lowering rates will not promise stimulation of the economy! After they just told us that it would! They first postulate that aggregate demand can always be stimulated by lower rates, and that gives them the "right" to do it at their whim when the economy needs to be rescued, again, from their utter failures at managing the economy. And then they turn right around and in the same breath say, no, sometimes, even money available at 0% will not "stimulate aggregate demand." Even though their whole bag of tricks is that one trick, namely that lowering rates, will always stimulate demand! Now you see why I have zero respect for the Federal Reserve!

And if that is not bad enough, the real horror is that they are giving themselves the option, which they are calling, "'nonstandard' policy alternatives," to do any damn thing they want to, whether or not it conforms with the law, reason, intellect, convention or common sense!

They even dress it up in with the neutral-sounding word "nonstandard," when the more accurate, though lengthy, synonym would be "Outright fraud, intellectual bankruptcy and legalized corruption by a fascist government that has no idea what in the hell it is doing, the kind of behavior that sends the Mogambo off the edge, and the next thing you know, local television stations are breaking into their own broadcasts to breathlessly announce that a heavily armed raving lunatic is creating a disturbance downtown and that traffic is snarled for miles."

**Regards,
The Mogambo Guru
for The Daily Reckoning
October 11, 2004**