

Of Alchemy and Other Farces

By [The Mogambo Guru](#)

03/01/04

Mogambo on Monday! In today's episode, the mighty Guru makes clear his disdain for imaginary money...and real money that has no business existing.

I had a horrible feeling something truly awful would happen last week, and I was right. The Federal Reserve – which will in the future be known by foreigners as "The Filthy Toilet That Flushed Our Money" – found it could not restrain itself a moment longer. And so, they ramped up Fed Credit by another \$10 billion last week.

Now this is not just ordinary money! No, sir! This is the fabled High-Powered Money of story and song (S&S). This is pure, raw credit, the stuff that is literally created out of thin air, and then used by the banks to expand by a hundred-fold via the fractional-reserve multiplier! In his film, "The History of the World, Part One," we saw the King of France, played by Mel Brooks himself, winking at the camera and saying "It's good to be king!" Which is, I gotta admit, a lot better than being the Mogambo, since I can't call down to my Treasury Department and say "Hey! I'm in a spending mood! Bring me a few billion dollars. In cash! And make it snappy!"

The good news is that I have decided to invest some money in biologically engineering a Golden Goose that will lay eggs of pure gold. Seems like a tech-savvy, hipper and safer way of creating gold than what those guys who practiced alchemy used to try. Remember? They breathed poisonous fumes trying to turn base metals into gold via chemistry and superstition and gossip, and they all ended up insane and broke. And dead, you'll note, because nobody believes that stuff anymore. Or maybe the jobs as Alchemists have been out-sourced to India or something. I dunno.

Fiat Money: Base Metals into Gold

But now that I think about it, I look at my watch and I see it is time for a little childish bit of ridiculous farce, and ask how that old-time alchemy stuff is any different from what Alan Greenspan is doing? He is trying to convert base metals (fiat money) into gold (a prosperous economy) via alchemy (using a little math, a little stupidity, unreliable computer models, and rigid adherence to a stupid and demonstrably false theory that disregards everything we know for sure about how economics works, which is clearly taught by Rothbard and Mises and that whole Austrian School of Economics, which is the camp that I put myself in, although when I go there and ask to come in, they turn off the lights and pretend they aren't home, but I know they are in there because I can hear them snickering and poking each other and trying to suppress their laughter at my expense).

Now all we have to do is find out who is going to end up insane and broke. Who? Or whom?

Well, it ain't a-gonna be me! And if you listen to me, it ain't a-gonna happen to you, either, because I know what is going to happen, and thus I own gold and commodities, and therefore I will end up with the riches of a king, just like all the other guys in history who faced what we are facing and who did what I did, and if you are taking my advice, do what I do, because those guys ended up owning everything and having all the money after the inevitable collapse, and they ended their lives rich and happy and actually squealing in delight at all the fun they were having, and calling all the shots, and making themselves into kings, and I'll bet if you could talk beyond the grave to one of them right now, they would say "Mel Brooks was right! It IS good to be king!"

Meanwhile, getting back to the Fed, which is what we were talking about before I rudely interrupted myself, the Fed is also allowing the banks to loan out everything they can get their hands on, by reducing required reserves to the point of silliness, as they try as hard as they can to get this economy perking again. I thought that by last week we would have seen the reserves/deposits ratio break the 1% barrier, but it is still hanging out just above that absurdly low figure.

Why do I care? Well, you let some of those assets of the bank go south, and you will be given a Real Lesson In Life (RLIL) about why the ratio of reserves to deposits has never been allowed to get this laughably low. One percent! I snort, and the sight of the snorting of the Mogambo is not any prettier than it sounds, which has really damaged my Hollywood career, but I don't want to get into that right now, thank you.

And another reason begs to be mentioned, and that is, of course, that all this absurd creation of Fed Credit and the power of fractional banking turning it into Suddenly Exponential Credit and the lowering of the reserves/deposits ratio turning it into Unbelievably, Horrendously Gigantic Credit, all that Credit action will only lead to one thing – inflation. And you know what THAT means...and if you don't, just see how you like paying your utilities bill this month.

Fiat Money: Prices Will Go Up

Notice that the consumer price index came out last week, and prices were up 0.5% in a month. Most of it was blamed on the rise on energy prices. A guy named Kevin Logan, who says he is the senior economist at Dresdner, Kleinwort, Wasserstein, opines that "Inflation still looks very low, and it's likely to remain low. Most of the rise was energy, and that's not likely to be repeated."

Huh? Says who? I say the exact opposite on both counts! But then I am not a typical American economist, which is a euphemism for "moron," a term that I use when some bozo cuts me off in traffic, as in "Hey! Watch where you are going, you filthy little American economist!" or when I am advising visitors at my house to "Watch your step in the back yard, as I have a dog and I have not gotten around to cleaning up all the piles of American economist opinions."

Well, I am here to tell you, and this Logan fella, that the prices of everything else will also go UP, because energy prices are UP, and will keep on going UP, and so prices are NOT expected to remain "low," as far as I am concerned, and to tell you the truth it is my considered opinion

that prices are NOT low now, and are in fact going UP at alarming rates, and if I have to I can bring in experts with impressive credentials from prestigious, big-name universities and colleges who can tell you, with eye-catching graphs and charts and all that stuff, that prices that are rising higher and higher are not, as you have heard, "low," and furthermore, are not going to "remain low," either.

And suddenly the music stops and I abruptly put my fingertips to my temples, and in my mind's eye I can see, yes, it's getting clearer and clearer, I can see through the Parting Veil of Time, and I see that energy prices will continue to go up, because oil producers will be perpetually loath to keep selling us their oil in return for increasingly worthless dollars, because everybody is laughing at them for doing that. "Ha ha! Stupid OPEC will trade oil for less real, devaluation-adjusted dollars! Nyah hyah hyah! OPEC is stoo-pid! OPEC is stoo-pid! Ha ha!" Especially when China's economy is growing like gangbusters, and when its appetite for oil is increasing every single day, and will continue to increase exponentially for a long, long time. And so it is child's play to forecast higher and higher prices for oil until, and you might want to get out your calendars and write this down, March 27, 3455 at, oh, around just before lunch, I figure.

And don't laugh at the ridiculous exercise of forecasting out that far! The government, your own government, at the request of guys you elected, is providing forecasts of the American economy 75 years out. 75 years! Hahahaha! 75 years! Hahahaha! Let's see; that means we can go into the dusty archives and take out the government's 1929 forecast for the next 75 years, which is, coincidentally, 2004, which is also, coincidentally, today. Perhaps it will prove instructive to see how well the government economists of 1929 predicted what is happening today!

Fiat Money: Acting Like Drunken Sailors

Oops. Just got back from the dusty archives where I looked for that 75-year forecast, and boy, am I dusty! But as far as I can tell there is no "Government Economic Forecast For The Next 75 Years" published in 1929. And in talking with historians of that era, the reason is that it was always considered laughably stupid to even suggest such a stunt, much less to waste time doing it. Sort of like alchemy, and see how that references a previous section, pulling this little essay together?

In short, the damnable Fed and the damnable Congress are acting like, and have acted like, and promise to continue acting like drunken sailors for the rest of your life. And one of the Iron Laws of Economics, and I am sure that you remember the Iron Laws of Economics, is that printing excess money and credit has the effect of always destroying the value of money, and in this case the dollar.

Now, if you are Alan Greenspan or any of the deliberately obtuse dolts who work for the Fed or the U.S. government, then this means absolutely nothing to you, or if it does, then you are careful not to say anything. But if you are a person who buys anything priced in dollars, then it almost surely means a great deal to you, or it will very soon.

Regards,

**The Mogambo Guru
for The Daily Reckoning
March 1, 2004**

P.S. Gold had a nice sell-off recently, and that was a Gift From Above, and all you had to do was walk over there and pick it up. You did? Good!