

Poisonous Tentacles

By [The Mogambo Guru](#)

06/01/04 Mogambo goes back to school – Austrian school – to learn about inflation. Just don't ask any stupid questions if MoGu is in the classroom...

For years and years – even before I was born – I have been saying that there is nothing new under the economic sun. There has always been government, and taxes, and money, and borrowing, and lending, and some measure of something akin to interest rates, and people sharpening knives (in anticipation of the birth of the Mogambo) to poke and torment me with.

Now a guy named Jorg Guido Hulsmann has written an essay entitled: "Nicholas Oresme and the First Monetary Treatise," published on Mises.org. He starts off with: "Nicholas Oresme was born about 1320 in France. At some point before 1355, he wrote a treatise on the ethics and economics of money production. The book had the title 'Treatise on the Origin, Nature, Law, and Alterations of Monie.' The most adequate modern rendering of the title would be 'Treatise on Inflation.'"

Anticipating Mises and the whole Austrian School, this Oresme guy wrote: "Government meddling with money boils down to increasing the money supply beyond the level it would have reached on the free market; that is, it boils down to inflation."

Oresme: A Zero-Sum Game

Hulsmann goes on to say that Oresme considered the results of the excess money and credit and concluded: "This policy is truly anti-social: it does not serve the community of money users as a whole; rather it benefits some members of the community at the expense of all others, thus pitting them against one another."

In a zero-sum game like this, if you got a winner, you gotta have a loser. And so, looking on the bright side first, who are people that benefit? Could it possibly be you and me?

And perhaps another good question would be: What are these benefits and losses?

The benefits, obviously, are the money flows collected by the select few. The losses, however, are more opaque; the poor, for instance, didn't have any money to start with, and they won't have any money when it's all over. I know what you are thinking. You are wondering: "So what is the 'cost' that this group of 'somebodys' pays? Huh? Well, how much will they suffer, Mister Smarty-Pants-Mogambo-who-thinks-he-knows-everything?"

Well, deftly dodging the question – which only proves that there is some benefit to playing dodge ball as a kid – I reply that an easier question would be: Who is going to PAY the benefits to the select few, and how?

Oresme: The Cost Paid by the Poor

Well, we know that the banks and the rich will reap a benefit, as they run the system, and they make sure that they are going to benefit. And what of the middle-class? Well, those folks will initially remain unaffected, as their wages and benefits will (theoretically) increase in line with the general inflation. And what about the poor, who are living hand-to-mouth (forgetting for the moment that the Mogambo lives with his hand IN his mouth making it hard to chew)? Well, as usual, the poor will foot the bill, through a falling standard of living, through the standard expedient of inflation. This is the 'cost' paid by the poor.

So while the purchasing power of the dollar went down for everybody, the rich and the banks will all get plenty MORE dollars, which MORE than make up for the decline in the purchasing power of their old dollars. The middle class will have their wages and salaries raised sufficiently to compensate for the higher prices and initially they will remain wealth neutral.

But the poor, of course, will not benefit at all. They will suffer economic pain that rivals the scale of money expansion.

Oresme wrote that: "Inflation invariably entails exploitation and social strife." So, all the way back in 1355, they recognized that we have more social strife when people are miserable, thanks to higher prices! "But this is not all. Inflation is not merely a zero-sum exploitation scheme in which some gain what others lose." At this point you should be saying "Yikes! The 'zero-sum-game-thing' is bad enough, but is he saying that there is something worse than a zero-sum game?"

I feel a cold chill and a shudder goes up my spine. Naturally I think it's my wife, and that she is creeping up behind me with a meat cleaver in her hand and mayhem in her eyes...but when I swivel round in my chair and squeeze off a few warning shots from my trusty sidearm, the coast is clear.

Hulsmann tacitly indicates – "yes" to my question, and my blood cools to icy crystals when he goes on to say, "It actually generates net losses because it deteriorates the very vehicle of social cooperation. Inflation makes money worse and thus people exchange less, which means they cooperate less, which means they are not as productive as they could otherwise have been." And when you are less productive, you make less money. And having less money makes you more miserable. Now you know why I said "Yikes!"

Oresme: Stupid Question

So one of the new guys in class raises his hand and asks, "Isn't there some benefit to all this? You are increasing the supply of money and stimulating the economy, which ought to produce jobs, and cause money to trickle down to the poor, wouldn't it?"

"If you ever, ever say anything again that is even half as stupid as what you just said, you will pay a penalty that you will remember with horror all the days of your life, and as you lay on your

death bed at some ill-fated time in the future, you will think again of what I did to you, and you will die screaming. Do I make myself perfectly, perfectly clear?"

Everybody relaxes as I motion to Mr. Hulsmann to continue with his fascinating lecture, and he goes on to say: "Thus Oresme clearly grasped the important truth that the nominal money supply is, by and large, unimportant. The economy can operate with virtually any nominal money supply. At a higher supply, the prices are higher; at a lower supply, they are lower."

Lower prices? Hey! I got an idea! See if you follow me here, because I am apparently one of the few people on the face of the earth in the last 649 years who comprehends what this guy is saying. So here goes. If we have a lower money supply, see, prices will come down, and if the money supply is constant, then prices will stay constant, too. And so the guys in the 25% of the population that make less than \$18,000 per year, and those making minimum wage, which is \$10,712 per year, will have a **RISING** standard of living, thus relieving them of their poverty! We can truly make the situation of people better by having a falling money supply? And we are not doing this because...?

The reason is simplicity itself: somebody is going to make some money by inflicting misery on the poor. Who are these people? Hulsmann explains: "Inflation benefits those who create the inflation. It does not affect all money users at the same time, but at different points in time. It therefore creates winners and losers. Politically induced changes in the nominal money supply enrich the government at the expense of the citizenry. Oresme stressed that the government stood ready to gain from inflation; that the greed of governments was in fact the root cause of inflation; and that, once government gave in to temptation, they willy-nilly turned themselves into tyrants." Tyrants! "But whatever loss the prince inflicts on the community is injustice and the act of a tyrant." And let's remember what the community has always done to tyrants throughout history...it lynches 'em.

What Oresme did NOT say – as the concept of central banking had not been invented yet, and in fact a whole lot of things had not been invented yet, like Oreos and yummy Cheese Doodles, which explains why none of Oresme's papers are not covered with orange fingerprint stains and brown crumbs with bits of Double-Stuff icing, and why mine are – was that the bankers make most of the money today! In the same vein, Chris Temple said, "In the end, of course, a fractional reserve system is guaranteed to bring unpleasantness." And what is the Federal Reserve except another private bank, with awesome powers to enrich itself by controlling all other banks, via fractional reserve banking?

"Were he to live in our day, he would probably qualify our monetary system as tyrannical and urge its reform."

What a racket!

Regards

**The Mogambo Guru
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—Mogambo Sez: Insiders are selling, inflation is raging, stocks are at ridiculous multiples, bonds are at multi- generational lows, houses are unaffordable, interest rates are going to be raised, and yet people are buying? How dumb are we?