

Hairshirt Economics

By [The Mogambo Guru](#)

07/11/05 There is one group of people that The Mogambo despises almost as much as the Federal Reserve – journalists. And now, one has dared to challenge Mogambo's views on Greenspan...this scrivener has no idea who he's messing with...

Christopher Farrell, writing the essay, "Greenspan: Wizard or Villain?" on msnbc.com, divides people into two camps. On the one side, we have what he calls "The hairshirts," which "believe that for the health of the economy to be restored, the inevitable bust that follows a boom must be at least as great as the boom."

Apparently we, speaking for the hairshirts everywhere, are the stupid scumbags of the world. On the other hand, we have what he calls: "Growth proponents – and there's none greater than Greenspan – believe that it's better to limit the fallout of a bust and get the economy growing again as quickly as possible." Did you note that one side is dismissed as the pejoratively labeled "hairshirt" idiots, and the other side is gloriously called "growth proponents" instead "raving lunatics"?

So it is better to let my daughter speed dangerously in her car and clean up the mess when she inevitably crashes, rather than stop her from speeding? And it helps the economy for me to constantly put bigger and bigger engines in her car the whole time? Wow! No wonder I always win the "World's Worst Dad" award!

Christopher Farrell: Greenspan's Great Mistake

Then to make sure that you understand that he is a "journalist" and not an economist, he goes on to say, "To the hairshirts' way of thinking, the great mistake Greenspan made was not allowing for a vicious economic and financial downturn to purge the speculative excesses built up during the heady '90s." No, you little twerp! That's not it at all! The great mistake was allowing the damned speculative excesses in the first damned place! But nooOOooooo! Greenspan is directly responsible for the creation of so much, so excessively much, so incomprehensibly much, so impossibly much money and credit, which financed every damn one of the damn speculative excesses, which now need to be purged, because there is nothing else to be done with them, and with all of the attendant misery.

So we are NOT quibbling about how best to correct huge boneheaded and criminally stupid mistakes with monetary policy. What we should be quibbling about is where in the hell YOU were, you and your rapier-like journalistic wit and vast economic-savvy, the entire time this Greenspan putz was doing this monetary insanity? And now we are supposed to think that this Greenspan fool, who caused our misery, is the best person to correct the mistakes he himself made? Hahahahaha! Journalists! Hahahahaha!

To prove that Alan Greenspan is a real first-class bonehead, Richard Schlessel sent me this snippet of an interview, where Alan Greenspan was asked, "Do you believe that personal retirement accounts can help us achieve solvency for the system and make those future retiree benefits more secure?"

Greenspan is reported to have said "Well, I wouldn't say that the pay-as-you-go benefits are insecure, in the sense that there's nothing to prevent the federal government from creating as much money as it wants and paying it to somebody." This is exactly right, they are secure. Although he leaves it to the reader to extrapolate to the correct conclusion that the money that the government will print with such insouciance will be, as a result, worthless, as far as using it to buy things is concerned.

But then he goes immediately to a non sequitur when he says, "The question is, how do you set up a system which assures that the real assets are created which those benefits are employed to purchase?" What in the hell is THAT supposed to mean? Is he asking, "How do you keep inflation from destroying everything when all that money, that staggering, gigantic towering mountain of money, flow into the economy?" Is he saying that he wants to somehow direct all of that money into the stock market and the bond market and the housing market? What? What is he saying?

Christopher Farrell: Money Overflowing

Marc Faber of the Gloom, Boom And Doom Report, is another guy who also believes that the Federal Reserve is incapable of dictating where money goes. He writes that the Fed creates money like water, and "when there is a problem they just replenish the water level of this fountain, or of this lake, and then it overflows. And whereas the Fed controls the quantity of money that comes into the system – more or less, they don't control it 100%, but more or less – what they certainly don't control is where water, or the money, then flows to. It can flow, as I mention, in the 60s into wages, in the 70s into commodities, and consumer prices in the 80s, notably into Japanese stocks and real estate, and then in the 1990s into the NASDAQ, and now more recently into the real estate market."

That is bad enough, but even worse is that it is, as he says, "uncontrolled – and if the door is open, or the system, then the money can one day also flow out of that door, which leads to weakening currency."

Jim Puplava, seeing Mr. Faber and me yammering back and forth and getting all the attention, says that he agrees, too. "When central banks stimulate, or print money – it stimulates something: sometimes production; sometimes employment; sometimes assets." The worse part is that "it annihilates thrift; it destroys, in my opinion, moral and intellectual values; it creates the wealth disparity."

Mr. Farrell then writes, "The critics say Greenspan has transformed the economy into a giant bubble, concocting one even greater than the one that already burst. The longer he delays the day of reckoning, the worse the fallout will be when the bubble pops." Yes, that is EXACTLY what I

say, and that is exactly what history process, and that is what everybody who knows the least bit about economics says.

But Mr. Farrell is not interested in any of that. In fact, he dismissed me with a wave of his hand, as if shooing away a pesky fly, as he goes on to say "That's a severe indictment – but not necessarily a valid one. A problem with the anti-Greenspan mindset is that hairshirt economics was largely discredited during the Great Depression." Huh? It was? Excitedly, I pull my chair up closer, because this is big news to me! I am on the edge of my seat to hear how this was "discredited during the Great Depression"!

Christopher Farrell: One Long, Heavy Lesson about Economic Booms

Seeing that I am at full attention, ready to hang on his every word to soak up this important new knowledge like a sponge, he says, "Mainstream economists of all schools, from Keynesianism to monetarism, turned away from hairshirt economics after the Great Depression." Huh? Another new revelation! I never heard that before, either! Sensing my stupefaction at the enormity of what he is saying, he explains, "They realized that the government could play a positive role in counteracting contractionary forces in the economy." Hahahahaha! I laugh in contempt at such a statement!

Wiping the tears of laughter from my eyes, and it is difficult for me to stop laughing, because everyone, in all periods of history, all know from the cradle to the grave that the government can cause a boom! This is because history is essentially one long, tiresome lesson in how all governments did this very thing, at one time or another, and the economy always got the boom, and then they all paid a heavy, heavy price, sometimes literally destroying the economy. And then every government, facing the inevitable economic contraction, then went after more money, usually by declaring a war, so that they could, as he says, "play a positive role in counteracting contractionary forces in the economy." And yet this Farrell guy thinks that only after the Great Depression, not even eighty years ago, (which was caused by the newly-formed Federal Reserve acting like profligate jackasses even then, creating huge amounts of money and credit to counteract, supposedly, the recessionary slowdown following WWI, and thus financed the Roaring Twenties), did people realize, and pardon me from laughing out loud, but I can't seem to help myself, that deficit-spending by a government could counteract "contractionary forces"? Hahahahaha! I can't help myself! Hahahahaha!

But, to be fair, Mr. Farrell is, after all, just a journalist. And we have learned that nobody requires journalists to know what in the hell they are writing about, but only that they write something to fill up empty pages.

Regards,

The Mogambo Guru
for The Daily Reckoning

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P.S. The Mogambo Sez: I am surprised at how gold is going down here lately. From the various lease rates for gold, it looks like to me that that money is being put into a calendar spread. Inescapable conclusion: I have no idea what I am talking about. But if I did know what I was talking about, I would say that this looks extremely, extremely bullish for gold, and that the temporary fall in the price of gold is a fabulous buying opportunity.

But it is more than that, as Billy, one of the guys I play racquetball with and who likes trying to make a little money by playing in some market or another, or hatching some business deal, or exploiting some price discrepancy, or some exploration or something, it's always something, but never gold, is suddenly interested in gold. After all this time. He says he has heard some good things about gold and is convinced enough to get some. This is how manias begin, not how they end.