The Bernanke Agreement

By The Mogambo Guru

03/06/06 The Daily Reckoning PRESENTS: Here at the DR headquarters, we've been more than a little worried that the world as we know it is coming to an end. Today, we have some hard and fast proof. The Mogambo actually agrees with a member of the Federal Reserve…

THE BERNANKE AGREEMENT

Ben Bernanke, the chairman of the Federal Reserve, was speaking at Princeton University, his old alma mater, and he said that the central bank "doesn't really have good instruments for addressing asset price bubbles should they exist, particularly if they are in one particular segment or another," which is true, and I agree with him, as much as it goes against my Grumpy Mogambo Nature (GMN) to agree with anything this Bernanke guy says.

Bernanke also said, "It's generally a bad idea for the Fed to be the arbiter of asset prices," which is also true! I shake my head in disbelief at what I am hearing him say, and then he goes on to say, "The Fed doesn't really have any better information than other people in the market about what the correct value of asset prices is," which is also true! Again, I have to agree with Ben Bernanke, and you notice how my flesh crawls because of it.

The article notes that Alan Blinder, who is a former Fed vice chairman and is now a Princeton economics professor (making him a colleague of Bernanke), "wrote a paper last year saying Greenspan may have been the 'greatest central banker' ever," which tells you all you need to know about Alan Blinder.

Blinder explains the Greenspan-Bernanke approach to bubbles: It is magic! Something wonderful somehow happens when "basically, you do nothing and then the corollary to that is that you mop up after they burst to keep the financial system from taking a big fall." Hahaha! This never fails to crack me up! I am not sure what planet this doofus Blinder comes from or what kind of medication he is taking to make his mental processes so weird that even Princeton would hire him, but his vaunted "doing nothing" is easily contradicted by the fact that the Federal Reserve was doing something! For freaking years, decade after decade, the Federal Reserve has not been doing "nothing," you dimwit! They were doing something! Something horrible! They were creating whole oceans of credit out of thin air, every damned day of the week! Week after week! Month after month! Year after year! Decade after decade! The money went into horrendous price inflation in stocks, bonds, houses and the size (and cost) of government!

And now, businesses are complaining that they can't attract quality employees because housing prices are so high. The government solemnly strokes its collective chin and says, "Hmmm! This is serious! We need government action!" Utility prices are rising so high that voters are complaining. The government again strokes its collective chin and says, "Hmmm! This is serious! We need government action!"

But let’s get away from this silliness, because as you can see, I am working myself into one of my Hysterical, Screaming Mogambo Spells (HSMS). So, let’s return to his prepared remarks, where we cool down considerably, and actually agree with Bernanke when he says, “stable prices are desirable in themselves and thus are an important goal of monetary policy.” Hooray! Yes! Yes they are!

And then, he also goes on to say, “stable prices are also a prerequisite to the achievement of the Federal Reserve’s other mandated objectives, high employment and moderate long-term interest rates.” I leap to my feet and shout, “Hooray! Hooray for Ben Bernanke!” and then I am shocked at hearing myself say it! I feel dizzy at the experience! Whew!

Bernanke is lying, and he wants inflation, lots of inflation. It is inflation that curses my soul and I have nightmares, especially now, as new inflation figures keep coming out, and coming out, and coming out, until the sheer tonnage of horrifying statistics about how the prices of things are rising sends me crawling back to the closet under the stairs, where I whimper in dread.

So, how bad was it? It must have been bad, as all I remember reading was that the U.S. Labor Department said, “Consumer prices were up 4 percent for the 12 months, ” and then, I woke up a while later, stretched out on the floor, insensate. Slowly regaining consciousness, hand-over-hand I crawled back into my chair, and found that the rest of the sentence was: “ended in January compared with a 3.4 percent year-over-year gain the previous month. Core prices were 2.1 percent higher compared with a 2.2 percent year-over-year increase in December.”

And, how does one protect oneself, and offset this enormous rise in prices? Well, the bad news for us poor proletariat working trash is that working isn’t going to do it! The same article added that the U.S. Labor Department reported, “Weekly earnings of workers, adjusted for inflation, fell 0.2 percent in January and were down 0.4 percent in the last 12 months.” Hahaha! Welcome to the hell of fiat money!

Even worse, from Bloomberg we read: “Energy and food costs drove U.S. consumer prices up by the most in four months in January.” When considering the cost of all goods, the report reveals “Goods prices are 3.8 percent higher than in January 2005.”

And services, which were supposed to be some fabulous panacea, are inflating even more, as we read: “Service prices rose 0.5 percent last month and are up 4.1 percent over the last year.”

And the Harper’s Index notes, “Percentage change since 2000 in the average amount U.S. workers spend on out-of-pocket medical expenses: +93.”

I like the Reuters headline better, as it conveys a little more urgency, when they write, “January Consumer Prices Surge.” I would love it more if the headline were a quote from The Mogambo, namely: “Inflation is coming to kill you and your family!”

But nobody wants to remember what happens to prices when you expand the money supply so much, which is that prices rise to accommodate all the money, and you get inflation in prices. If you think higher prices is a non-event, then get a load of this AP headline: “Families’ budget squeezed by rising costs." The article went on to say, "From an economic point of view, core inflation – for now – isn't overly worrisome but it is 'generating some angst within the Fed,' said Sherry Cooper, chief economist at BMO Nesbitt Burns."

Apparently, Ms. Cooper is unaware of the irony that the article in which she is being quoted says that families are being "squeezed." And, I guess it is a matter of opinion whether or not a family being "squeezed" is "overly worrisome," although if Ms. Cooper would care to come over to my house, I will happily put her head in a vise and then she can tell me whether or not getting squeezed is "overly worrisome."

Until next week,

The Mogambo Guru
for The Daily Reckoning
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Mogambo Sez: Emphasize silver, as the looming ETF in silver will mean, as Ted Butler, writing at InvestmentRarities.com, says, "There's no way this much silver could be bought without sending the price to $100 an ounce." And with silver selling for less than 10 bucks an ounce, that's a nice ten-bagger gain!