

The Bread War

By [The Mogambo Guru](#)

07/03/06 Uh-oh. Looks like the Mighty Masked Economist is pulling out all the stops: loading up on ammo, counting his gold and stocking up on Spam. Why? Well, it might have something to do with the lack of new Fed credit...

I creep out from behind the couch and nervously peek between the tightly drawn curtains in the living room. I darkly note that, ominously, things are getting really spooky out there, and I am not a happy dude when I am spooked. Dangerous and homicidal maybe, but not happy. Perhaps even a marked tendency toward loud, hysterical outrage, but definitely not happy.

For instance, how about the spookiness of almost no increase in Total Fed Credit last week? That \$1.1 billion was almost nothing! Even currency in circulation is holding steady.

Of course, we can always count on foreign central banks, which put another \$4.6 billion into increasing the clotted hoard of over-priced, low-yielding American government and agency debt in their custodial accounts at the Fed. As an aside, I hear that if you stand downwind of the Federal Reserve, you can actually smell the stench.

But even all that foreign central bank stuff may be coming to an end very soon, as we read on Bloomberg.com: "Bank of Japan Governor Toshihiko Fukui said Japan needs to adjust rates from near zero percent 'without delay' to prevent companies from investing excessively and the economy from overheating."

So, this is getting to be serious business here, because new money has to always (homework assignment: Underline the word "always" and meditate on its significance) be coming from somewhere, more and more all the time, as that is the whole point of a Ponzi-finance scheme. It's the only thing that makes it work: You either come up with more money, always, all the time, forever, or prices of some things go down. Or the prices of most things go down. Or the prices of all things go down. I dunno. I never was good at multiple-choice questions, and I am not going to try and answer this one, either.

But the world's governments and central banks are deathly afraid that the Ponzi-finance schemes that produced the bubbles in stocks, bonds and real estate will go bust, as all Ponzi schemes do. It's not that they feel bad for you (because believe me when I tell you that the government does not give a rat's patootie about you), but because the governments have their own outrageous Ponzi-schemes, such as Medicare, Social Security and a myriad of other welfare/transfer/government programs. Not to mention all the graft and corruption. Perhaps that is why Sprott Asset Management says, "Nary has a crash ever occurred in these areas without the central banks turning on the spigots. We highly doubt it will be any different this time."

So, these things will go down in price unless, unless, unless more money gets created (by the simple expedient of somebody going deeper into debt) to buy out the current owners of those assets, handing them a profit that is taxable. It's that simple.

One thing I am very, very, very sure about, though, is that gold and silver will be a fabulous asset that will undergo a huge inflation in price. Another thing that I am sure about is that one day in the not-too-distant future, your grandchildren, with the advantage of 20/20 hindsight, will be able to prove that in 2006, with gold and silver selling at less than \$700 an ounce and \$13 an ounce respectively, precious metals were the Mogambo Freaking Bargain Of The Century (MFBOTC), and your grandchildren will laugh at you ("Hahaha!") because you did not buy gold and silver then, proving that you were so stupid that whereas even newborn babies can see that the MGBOTC was right in front of your eyes the whole time, you, perversely, kept all your money (and even put more money!) into the Ponzi-stock market, the Ponzi-bond market, the Ponzi-government economy, and the Ponzi real estate market! Hahahaha! Now you are forced to eat weeds and bugs because all of your money is gone and the song was right: "Nobody loves you when you're down and out."

Don't think it can happen? Well, pull up a chair and let me tell you about Zimbabwe, the most grossly, insanely mismanaged economy in the history of the world; they confiscated the assets of the only profitable businesses in the country and they printed money. For perspective, a decade ago the Zimbabwe dollar was roughly equal to the U.S. dollar.

Anyway, according to a woman known only as Cathy, who actually lives in Zimbabwe and gets paid in Zimbabwe dollars, "Petrol was 260 thousand dollars a litre three weeks ago. Last week, it rose to 360 thousand a litre and this week it galloped to 500 thousand dollars a litre and then disappeared altogether." Disappeared!

I am thinking to myself, "Big deal! Not being able to afford gasoline just means that you have to send your whining wife and/or kids walking to the store to buy bread, frozen pizza, and some of those little chocolate donuts that I love so, so much and too, too much to share with hateful, ungrateful family members."

But, perhaps I was too hasty, and there is more to this than meets the eye! Sure enough, she goes on to write, "In complete contrast to the realities of four-figure inflation, this week a dramatic crisis arose with bread. Bakers put the price up; the government ordered them to put it back down. At the price stipulated by government, bakers said they were operating at a loss and putting twenty thousand jobs at risk." What to do? Well, in their own defense, the "Bakers took out a full page advert in the press detailing the increases of everything from flour and yeast to wages, packaging and delivery."

The result? Hahaha! The same in Zimbabwe as everywhere else, my Darling Mogambo Cherub (DMC)! For instance, our own American government calculates that there is almost no inflation, and so price increases are, therefore, proof of price gouging, for which you can be fined and sent to prison! She says almost the same thing about the comparable idiocy of the Zimbabwe government when she writes, "The government refused to allow the price increases and called in the police. In a week over 280 bakers and shop assistants have been fined for overcharging."

Now that we have the predictable government response out of the way, let's now turn our attention to the predictable economic response. She writes, "As the bread war continued all week, the obvious happened, and fewer and fewer shops had bread on their shelves as less and less loaves were baked." It disappeared, just like the gasoline that disappeared! This is proof – proof! – of a Martian invasion to take our resources and women back to Mars with them on their flying saucers!

It is strange that she doesn't even mention this manifest Martian menace, but instead she summarizes, "It has been an absurd but now familiar case of denial by the government." At this, I laugh! I say, "Welcome to the club, lady!" All of this is no less absurd, and no less familiar, as the denial and suppression by our own American government, the irresponsible American press, the calumny of the mainstream universities, and the horrid, insane Federal Reserve about our monetary and price inflations, which differ from Zimbabwe only in degree. Only in degree!

But this is not about how Zimbabweans can't afford bread and are now forced to eat weeds and bugs. Instead, the point I was painfully belaboring is that since all of the money and assets in America are now debt ("putting equity to work!"), and since interest rates are still hovering around the lowest in history and thus destined to rise significantly, that this lack of increase in Total Fed Credit is frightening, sort of like when I came down to breakfast and my wife was standing there wearing a hockey mask and holding a chainsaw. As she yanks the handle, cranking it to roaring life, she lunged at me with it, screaming, "You're going down, you sick jerk!" And my daughter was yelling encouragement: "Get him, mom!"

But I'm not here to talk about Father's Day this year. The point is that this lack of new credit is that kind of spooky: It leaves an impression on you!

Perhaps we should, instead, listen to the calm, steady and rational voice of Hans Sennholz, who says, "As soon as goods prices and wage rates begin to rise, businessmen need additional funds. As long as the Fed provides them, the boom can continue and even accelerate. It comes to an end when the Fed ceases to throw new funds on the loan market or the quantity launched no longer suffices to feed the boom. At that time, the readjustment, that is, the recession, begins."

And I assume that it will manifest as described by the folks at DailyReckoning.com, who write, "The feds spared the nation a serious correction in 2001. But they did it at the expense of America's working classes, who were lured deep into debt in order to keep spending. Now that rates are rising, they find it impossible to continue."

If I was writing that, I would have finished the sentence by saying, "they find it impossible to continue" with "eating real food, and they had to eat weeds and bugs, and they lived in their cars, and then the government turned this excess population of weed eaters and bug suckers into Soy lent Green, a nutritious food supplement that we used to buy oil."

Anyway, this is actually about how most assets will deflate in price, and there will be a simultaneous inflation in some other asset. Choose wrong, and your living standards fall to the point where you are, again, eating weeds and bugs, but choose correctly and you can do anything

you want to do and strut around like you own the place because you probably do. And if not, you can hire so many lawyers that you can destroy anybody who says you don't or can't.

Putting words into the mouth of Captain Hook, of TreasureChests.info, I note that economic history is always boom-bust, therefore it is cyclic, and therefore, it always repeats itself. He writes, "we would like to point out that like Rome, where it was not outside forces that finally caused its demise, but the rot from within, sooner or later price managers / bankers / politicians will have wrung as much speculation out of the current population as possible, and stock markets (most equities) will ultimately collapse in price."

Until next we meet...

The Mogambo Guru
for The Daily Reckoning
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Mogambo sez: You can almost smell the fear in the gold and silver shorts, as more and more people are waking up to the fact, without elaboration, that every time in the entire course of history that a government committed these kinds of monetary sins, it was gold and silver that saved the day for those wise enough to buy and hold them. And it was curtains for everyone else.

And the pertinent lesson is not just that the people who bought gold and silver prospered, but that the people who bought early in the cycle made the most money when gold and silver rose.