

Inflationary Bonfire

By [The Mogambo Guru](#)

02/12/07 **The Daily Reckoning PRESENTS:** As the monetary moon becomes full, our angry economist howls about the bonfire of inflation, in an attempt to warn those who are smart enough to listen about the inherent dangers of such a terrible, terrible economic occurrence. Read on...

INFLATIONARY BONFIRE

Paul van Eeden writes that to calculate real, inflation-adjusted interest rates, the kind that determine your buying power tomorrow, you combine the two inflations: Monetary inflation and price inflation. Ergo, "Real interest rates should be calculated by subtracting monetary inflation (as calculated by M3, for example) from interest rates. If you did, you would find that real interest rates are negative."

Wow! Negative interest rates! Let's see: 4% interest rates minus 11% inflation in the money supply equals (and I can't believe what I am seeing!) a negative 7%! What in the hell are bondholders thinking about, paying these ridiculous prices for bonds in order to lock in these insanely-low interest rates? What in the hell are the central banks thinking about when they create the money to let people borrow money to do that?

The big problem, of course, is the inflationary growth in the most inclusive of all of the measures of the money supply, M3, which, in turn, causes price inflation. And in that regard, John Williams at ShadowStats.com put out a flash alert that M3 is now growing at 11%! The money supply will, at this rate, double in less than seven years!

Even worse, Mr. Williams said, "The alternate GDP shows ongoing recession with 4Q06 annual real (inflation-adjusted) change at minus 1.4% versus minus 1.5% in 3Q06." So we're having a real, honest-to-God recession? Yikes!

To show you the incredible effect of using all the hedonic adjustments to GDP and inflation, all I have to do is point you to where he reports that GDP, according to the government's "official reporting", was "3.4% for 4Q06." Hahaha! What a blatant disparity! And surprisingly consistent with Jim Willie, of the Hat Trick Letter, who figures that government "exaggerates the GDP by 4% to 5% in every quarter." Hahaha!

And worse yet, this kind of monetary lunacy is rampant all over the world, as I gather from Gary Dorsch, of sirchartsalot.com, who says that money growth is "explosive" all over the damned place, and that The Mogambo was absolutely right when he said that an inflationary bonfire was inevitable, and that we're all freaking doomed!

Well, actually he did not say that, and I just made it up, as I am obviously desperate for attention in a really sick kind of way like that. But while he did not say I was right about anything, or that

I even exist as far as he knows, he did say that money supplies around the world are growing alarmingly, such as, “In Australia, the M3 money supply is 13% higher from a year ago, British M4 is 13% higher, the Euro Zone’s M3 is 9.3% higher, a 16-year high, Korea’s M3 is 10.3% higher, China’s M2 is 16.9% higher, a 16-year higher, Russia’s M2 is 45% higher, and the U.S. M3 has been reconstructed to show 10.7% growth in 2006.”

Money and Markets newsletter reminds us that American M3 can only be estimated these days, as, “We are the only industrialized country that has ceased publishing the broad M-3 money supply measure!”

Jim Willie of the Hat Trick Letter expresses a lot of people’s worst fears when he says, “Global monetary growth is mammoth, a confirmation of my claim that we have already entered the Weimar Modern Era of unbridled money growth. Never in the history of central bankers has the hidden coordination, influenced pressure, gargantuan money creation, doctored statistics, and interference with financial markets been so broad, so deep, and so profound. My allegation is clear, that we now live in Weimar times. Collectively, they have abused the privilege of printing money, and in doing so, have guaranteed a gold bull market.”

Depending on your perspective, it is either good news or bad news when he opines, “Do not expect a return to normalcy in the United States, not now, not ever.” For me, as a holder of gold, it is certainly good news, as I don’t want things to be “normal” anymore, as I want out – out, out, out! – of this stultifying, suffocating rut of family and job so that I will never, ever again have to see any of their nasty faces, clean their spit off of my eyeglasses, hear how my work is “substandard even for a trained monkey”, or any combination of the above, and God knows I’ve heard them all enough to last me a lifetime.

And speaking of gold, the International Monetary Fund, which we funded by literally giving them tons and tons of gold in return for a fistful of their new Strategic Drawing Rights, has now predictably grown bloated and mismanaged, and now wants to bail itself out of its own budget problems by selling some of the gold! About 400 metric tones.

This is all too, too rich! The usual IMF advice (as part of an IMF bailout of one dirtbag country after another that tried something really economically stupid) is to cut spending and fire staff! But the IMF doesn’t want to take its own advice! Hahaha!

The philosophic and comic angles aside, SilverForecaster.com says, “The IMF has 3,217 metric tons of gold and the sale of 400 tonnes could raise \$6.6 billion at current market prices.”

But my problem is not with incompetence or corruption, as that is always everywhere at the ends of long booms, but with inflation. And as to that, he says that people who are buying bonds are idiots and that they and their children should be taken outside and shot before they infest the gene pool with their mutant DNA.

Okay, I made that up, too, and I admit I am getting really pathetic in my twisted, desperate craving for some attention, but he actually did say essentially the same thing when he said, “If

accurate price inflation was reported, then prevailing interest rates would have to be 8% to 10% in order to compensate for the asset erosion risk.”

Ty Andros of TraderView.com hits the problem right on the head when he asks, “Do you really think inflation can be contained in the face of the global Tsunami of monetary stimulus? Inflation is set to runaway to the upside, along with the global asset inflation they are fostering. The poorest people in America are set to become a lot poorer.”

And it ain't just the poor, as the middle class is in the same boat, Mr. Andros. This proves that Lenin, the former big shot commie, was waaaAAaayyy too narrow when he famously said, “The way to crush the bourgeoisie is to grind them between the millstones of taxation and inflation.”

If Lenin was alive today, I would go to his house and shout, over and over until the police came and dragged me away, still screaming, “In reality, everybody gets ground up by either millstone, you stupid Russian commie trash!” and he would have had to come out and admit that I am right, and that he is wrong. It would have been real embarrassing for him...and probably a career-killer, too.

From bitter experience I know it's death with chicks, too, so maybe he's actually lucky to be dead!

The price inflation millstone is, as we know, baked into the cake as a necessary result of the rampant monetary inflation. And as for taxes, look out! For example, President Bush (according to the New York Times), “will ask Congress to ‘eliminate annual indexing of income thresholds’” in the Medicare prescription drug benefit, “so that more people would eventually have to pay the higher premiums”! Hahaha! What a scam! And this is just the tip, the teensy tippy tip top of the coming iceberg of higher taxes!

And to remind you of the horror of the inflation millstone, we just saw that money supplies around the freaking globe have all been increasing at 10% or more, meaning that this opportunity is whispering sweetly in your ear to buy gold, which is unlike the piercing screeching and criticizing you will get from your family when they find out that you knew you should have switched to gold, and could have switched to gold, but you did not switch to gold, and now that your precious paper financial assets, especially the stocks and bonds of companies providing “services”, have fallen to intrinsic value (zero), you are all poor, while the people who owned gold and silver and oil and commodities got rich, rich, rich!

This is when your “loved ones” begin to stew in their envy, and they thirst for a scapegoat from which to extract a price for their misery, sort of like around my house, where I am blamed for everything. Like, for instance, how Joanie's boyfriend breaking up with her is, somehow, my fault, just because he came over to the house that one time and I casually asked him, in pleasant, idle conversation (She yells out “It was a freaking Gestapo interrogation, for crying out loud!”) if he knew what caused inflation in the prices of things (answer: inflation in the money supply), and it turns out he didn't know.

Furthermore he had no clue! And he giggled nervously, like this was just freaking fine with him or something! And then I told him that proves that he was stupid, and I hated him for being stupid, and would always hate him for it, and I told him how I sincerely hoped that I would always be able to, like right now, for instance, control my burning natural desire to grab him by his little geek neck and slap, slap, slap some sense into his stupid, stupid head, over and over and over, until I collapse from sheer exhaustion or until his stupid head pops off.

So their sudden, unexplained break-up is too bad, as next time I was going to ask him if he knew how the price of gold reacted to inflation (answer: it goes up, a lot!), which would have been both highly educational for him and a good aerobic workout for me!

Until next week,

The Mogambo Guru
for The Daily Reckoning
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**** Mogambo sez: Gold and silver, and silver and gold. Whichever way you say it, it is just perfect. And the more you have, the more perfect it is, too!