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Government Sanctioned Ponzi Schemes

by The Mogambo Guru

"The Implacable Screaming Mogambo (ISM) goes freaking berserk at the economic insanity of it all as he watches, horrified, as asset prices get bid higher and higher in a boiling frenzy of speculation with all of this new Federal Reserve money and credit, and which will end badly when the Ponzi game falls apart..."

The headline on Wolfgang Munchau's column was titled "Recession Is Not The Worst Possible Outcome", in the Financial Times. I naturally assumed that he was referring to the inevitable "outcome" after the stupid Federal Reserve created so damned irresponsibly much money and credit over the last few decades, so that the corrupt government could borrow a cumulative \$10 trillion and institute innumerable new government programs and agencies, paid for by reaping enormous floods of tax revenues during the economy's decades-long buying-and-selling spree in response to this irresponsible monetary and fiscal orgy of gluttony.

Which, I admit, sounds real nice!

I was pleased, therefore, as he seemed to be doing my very bidding in insulting the Federal Reserve when he first talks about Hyman Minsky's "financial instability hypothesis", which postulates that long-term economic stability breeds its own instability through a "vicious circle" of rampant financial speculation and Ponzi financing, which grows and grows until, at its "Minsky Moment", the frauds are revealed, and it all collapses in a heap of instability and chaos.

The predictable result, of course, is that the Implacable Screaming Mogambo (ISM) goes freaking berserk at the economic insanity of it all as he watches, horrified, as asset prices get bid higher and higher in a boiling frenzy of speculation with all of this new Federal Reserve money and credit, and which will end badly when the Ponzi game falls apart, as Ponzi schemes must, which is why Ponzi scams are illegal in all 50 freaking states and every country in the world, but still unbelievably legal in the budgeting of the damned federal government!

As examples of Ponzi schemes going bust, look at Social Security and Medicare!

I was hoping that he would then segue into Mogambo Invasion Plan Number One (MIPNO), which is how the whole country should rise as one and storm Washington, D.C. with flaming torches and a steaming, screaming sense of outrage, run every government employee either out of town or into prison, or both, and install The Wise And Wonderful Mogambo (TAWM) as Omnipotent Emperor Mogambo (OEM) with a fabulous, fabulous salary and benefit package.

Failing that, maybe he could expose the stupid-yet-fraudulent idea of a whole nation "investing long-term in the stock market to fund a retirement" to be the stinking lie that it is!

I mean, not only is it mathematically impossible, and not only has it never happened anywhere in the whole history of the world, but it is not happening now, either, as

implied by Mark Gongloff, writing at [blogs.wsj.com's Marketbeat](http://blogs.wsj.com/Marketbeat), whose article is titled, "Lost Decade".

I think I vaguely remember being drunk when I saw the movie *The Lost Weekend*, which was about alcoholism (always a fun topic!) and the title *The Lost Decade* is just as unsavory, and rightfully so, because he explains, "Adjusted for inflation and dividends, the return on the S&P 500 was negative for the decade that ended on June 30." Hahaha! Ten years of nothing! No growth in buying power for 10 years! Hahahaha! Nice "investing for the long-term" there!

So, anyone investing in the S&P 500, which is just a compilation index of the 500 biggest companies in America, for the last 10 years produced negative real (inflation-adjusted) results? Hahaha! And you are going to fund a retirement by never gaining any buying power? Hahahaha!

But he did not mention any of this, and so naturally I am wondering why in the hell he is wasting my time with it. Well, it turns out that the reason Mr. Munchau brings this up at all is that he gets into explaining about "New Keynesianism" which is, "in fact, probably the most influential macroeconomic theory of our time. At the heart of the doctrine stands the so-called dynamic stochastic general equilibrium model, nowadays the main analytical tool of central banks all over the world."

Hahaha! It even sounds stupid! "Dynamic stochastic general equilibrium model"! Hahaha!

Mr. Munchau apparently does not see the humor, and ignores me by going on, "In this model, money and credit play no direct role. Nor does the financial market. The model's technical features ensure that financial markets have no economic consequences in the long run."

I can see the obvious advantages of never suffering the consequences of my actions, and I am busily taking notes to use at my next Employee Annual Performance Survey! Whee!

Almost as an understatement, he says, "This model has significant policy implications." I think to myself, "I am waaAAAAaaay ahead of you, dude!"

"One of them," he goes on, "is that central banks can safely ignore monetary aggregates and credit. They should also ignore asset prices and deal only with the economic consequences of an asset price bust." Wow!

I was going to interrupt to make some rude comments about such a theory and some more rude comments about the Federal Reserve for even contemplating such absurdities, as I am sure that they parallel his own. But since I figure that it is good to know a guy who writes for the *Financial Times*, what better way to ingratiate myself than to agree with him?

Then he hits me between the eyes with the sledgehammer of, "They should also ignore headline inflation"!!!! Note the clever way I used four exclamation points as punctuation to indicate anger, horror, stark terror and homicidal outrage!

By this time, I am in dire need of medications to calm my pounding heart, and even he cautiously suggests, ever the gentleman, that "we might want to question whether the recipes that got us into this mess are also most suited to get us out again." Hahaha! "Also suited!" Hahahaha! What a wonderfully dry sense of humor! Hahaha!

He sums up by saying that to forestall the deserved collapse of the bloated, malignant economic system as currently constituted with more and more heroic monetary and fiscal insanity, and more and more governmental policy blunders, means that "a recession is not the worst possible outcome. The worst is for this crisis to go on and on, for Minsky's moment to become an eternity."

Constant collapse. Brrrr! Thank goodness for the warmth of gold and silver against such a chill!