

The \$85 Billion Non-Event

By [The Mogambo Guru](#)

12/08/08 The Mogambo makes no bones about his sincere hatred for inflation and anything related to it. And with inflation continuing to wreak havoc on our economy, it's no wonder he called Ripley's to report the \$85 billion reduction of Total Fed Credit last week. Unfortunately, they didn't believe it either.

If you want a real-world example of how inflation in consumer prices follows an increase in the money supply AND how an increase in anti-social, war-like behavior follows increases in prices, then a report from Bloomberg.com is just what you are looking for. It says, "Iran's annual inflation may accelerate to 50% if a plan to introduce cash payments for the poor is implemented, Sarmayeh reported, citing a parliamentary deputy."

So, if they introduce cash payments by increasing the money supply, prices will soon go up, and people will begin starving because prices are so high, making people riot. But if the government does not introduce cash payments for the poor, then the people will riot right now because they are starving since prices are already high! Hahahaha! An interesting choice!

I started out with a gallows humor laugh like that because I am sure that we all need a good laugh, as Federal Reserve Credit, which Barron's calls Total Fed Credit, was down a massive \$85 billion last week, which is a simply staggering sum, although it is a long, long way from the \$10 billion per month that Alan Greenspan was jamming into the banks since 1997 that created all the inflations and bubbles and weird economic distortions that we have.

But yet this huge reduction of \$85 billion in a week is, somehow, a non-event, especially considering that the Fed has doubled the stock of fabled High Powered Money to over \$2 trillion in just the last couple of months! Beyond astonishing! Unbelievable but true, although you won't find it at the "Ripley's Believe It or Not" exhibit because they all said, "We don't believe it!"

It's actually beyond unbelievable, too, and is instead more flabbergasting, and I am quite sure that if more than a trillion dollars of new credit added to the banks and an equal amount of new Treasury debt added in a couple of months won't gast your flabber, nothing will.

As you would expect, the monetary base went up to \$1.476 trillion, which has now almost doubled in the last 3 months, too! Doubled! Yikes!

You can probably tell by the way my eyes are rolling back in my head and my breath is coming in ragged gasps, or by the way I am clutching at my chest and gobbling nitroglycerine pills while screaming, "We're freaking doomed!", that this "doubling of the money supply" is Serious, Serious Stuff (SSS), mostly because inflation in prices follows an inflation in the money supply, and inflation in criminal behavior by desperate people follows an increase in prices, and economies do not thrive when everyone is afraid and starving because they can't afford food, which will then encourage the government to try to bail everyone out by even more deficit-

spending, which will be again accommodated by the Federal Reserve creating, again “out of thin air”, the necessary amount of credit in the banks so that it can be borrowed and used to buy the new government debt, which will add even more money to the money supply, making more inflation in prices and more catastrophic distortions in the economy worse and worse until (my voice rising to a crescendo) the Whole Freaking Thing (WFT) falls down in a Big Stinking Heap (BSH)!

Normally, this is the point where I would launch into a Long And Tiresome Mogambo Harangue (LATMH) about how gold always goes up in response to such rampant debasement of a currency and the ruination of an economy, but instead, now I just want to know, “Where is all of this new money ending up?”

Well, the money is not showing up in MY pocket, that’s for sure, as even my wife and kids can attest, as they are always rifling through my unguarded wallet and pockets when I am in the shower, and I can hear them whining back and forth that I don’t have any money for them to take, which makes me chuckle to myself (“Haha!”) that it only shows how stupid they are that they did not check inside the spare tire of my car to see if I had cleverly stashed some cash there to keep from being financially killed by my greedy family of blood-sucking parasites draining me dry of every bit of cash and assets with their incessant, whining demands for “heat”, “food” and “medicine.”

But perhaps a clue as to where some of these trillions of dollars of new money goes can be found in Doug Noland’s Credit Bubble Bulletin at PrudentBear.com, where we are informed that Total Money Market Fund assets increased to \$3.714 trillion, and “have posted a one-year increase of \$641bn (20.9%).”

And since inflation in prices follows inflation in the money supply, and since the inflation in the price of gold follows inflation in prices, then you can see where I am going with this and thus there is nothing more to be said! Whee! Buy gold! This investing stuff is easy!

Until next time,

The Mogambo Guru