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The Velocity of Worthless Money

by The Mogambo Guru

"Although this ignores the ugly effect of taxes, which inexorably grinds the original dollar down to zero as it goes from hand to hand, it is also a good example of the velocity of money (the number of times per year that a dollar changes hands)..."

I couldn't believe my eyes when I saw Ben Bernanke refusing to discuss the size of a proposed fiscal stimulus in the form of the government again sending out money to taxpayers, which he had just recommended that Congress do! He thinks it is a good idea to send out the money, and such a thing would have a whopping huge impact on his whole economic theory encompassing the standard economic theory of idiotic neo-Keynesian, econometric, deficit-spending crapola and outright socialism.

But here he is, refusing to talk about how much money the government should send out! Hahaha! This is the same econometric weenie that publishes statistics and forecasts with three-decimal place precision, and yet he can't come up with a rough estimate of something so huge that \$300 billion is bandied about? Hahaha! I told you these Fed guys were charlatans!

He is, of course, panicked at his own failure and incompetence as chairman of the Fed, so that he is now "forced" to nationalize banks, nationalize private assets, cranking out new money at the rate of over a trillion dollars a year, to no apparent avail as things continue to get worse and worse, and yet he has no opinion on how much freaking money the damned Federal Reserve is going to have to create so that somebody can borrow the money to buy the debt that the Congress is selling to get the money to give to the people in the first place? Hahahaha! Moron!

Ben Bernanke is the worthless and insane chairman of the same loathsome Federal Reserve that created our problems by creating too much money and credit for too long, and who is irresponsibly following in the footsteps of Alan Greenspan, former chairman of the Federal Reserve, who did most of the damage to us, and Bernanke is continuing to create the money used to bid up the prices of stocks, bonds, houses and size of government spending in bubbles that are now bursting.

Anyway, I saw his photo on the front page of the Financial Times, and the photographer caught him at the exact time that he was bowing his head in prayer, "Please, God, don't let the Mogambo Guru see me saying the stupid crap that I am saying, as he will painfully and rightfully excoriate me in his MoGu newsletter for being an idiot and a complete failure, but which will probably be okay, now that I think about it, since only brain-damaged nobodies on this planet read his stupid newsletter because he is so stupid and the government is out to get him!"

But this is not about how I am proud that Mr. Bernanke is scared of me, or how, unfortunately, I am ashamed that nobody but mental defectives read my stupid newsletter, but about another part of the Financial Times newsletter, namely James Altucher's column, which is titled "Reasons to be cheerful in troubled times", which couldn't have come at a better time this time, and right on time, too!

But whatever it was he was talking about that was so cheerful, I forgot it all instantly when he said, "It is estimated the government is not just putting \$700 billion into the system as per the bail-out package passed by Congress but \$2,250bn once you add in the AIG bail-out, Bear Stearns and the commercial paper facility." Yow! Over two trillion bucks!

My Sensitive Mogambo Guts (SMG), already raw and sore from puking up bile and blood in fear of what the Fed and Congress have done, and are doing, to the economy with all this new money and spending, churned anew in raw terror at the thought of \$2.25 trillion being instantly dumped into America's \$14 trillion economy, and suddenly I desperately needed to, like Greta Garbo, "be alone", and by "be alone" I mean locked inside the Soothing Mogambo Safety Bunker (SMSB) with an Uzi in one hand and a tasty sandwich or refreshing beverage in the other, looking out of the periscope for evidence of the onset of the rioting in the streets about the inflation in the USA, and probably burping and farting a lot, especially if there had been onions on the sandwich.

Anyway, once in the SMSB and after I've calmed down after a couple of hours of steady drinking, I am finding that my eyes don't seem to want to focus, making it hard to continue reading Mr. Altucher's column.

It turns out that it was indeed fortunate that I was so becalmed and cross-eyed, as he goes on to say, "It is estimated that there is a 10x multiplier for every dollar the government puts into the banking system", which translates into the result that this new "\$2,250bn does not equal \$2,250bn in benefits to the economy. It equals \$10,000bn-\$20,000bn." Yikes!

He goes on, "Every dollar that goes into the banking system will then get lent out to someone, who will then use that dollar to buy goods from someone, who will then use that dollar to hire people."

Although this ignores the ugly effect of taxes, which inexorably grinds the original dollar down to zero as it goes from hand to hand, it is also a good example of the velocity of money (the number of times per year that a dollar changes hands) and with overtones of the multiplier inherent in fractional-reserve banking, as banks are allowed to loan out a multiple of every dollar of deposits!

So a measly 10x multiplier makes me laugh at the estimate of an effective \$20 trillion addition to the money supply because the actual reported reserves in the banks of the USA have been, month after month, year after year, the same piddly little \$42 billion or so for over a decade! Hahaha!

In the meantime, as those years and years rolled by, bank assets went gigantically up, bank liabilities went gigantically up, but the reported reserves held against those liabilities and assets in the banks hardly changed a dime! Hahahaha! Talk about a multiplier! Hahaha!

Of course, this means that another \$2.25 trillion shoveled wholesale into the USA economy is actually fodder for an infinite increase in the money supply, just like all the other increases.

And it also means that I am NOT coming out of this bunker, except to buy more gold,

silver, oil or tasty victuals. Maybe wave to the wife and kids, but that's it!