

An Overdue Collapse of Money

By [The Mogambo Guru](#)

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The Economist magazine had the Buttonwood blog titled “Law of Easy Money”, which immediately gets your hopes up that there is such a thing as “easy money”, which actually exists (just ask Connecticut’s Senator Chris Dodd!), but unfortunately not for guys like you and me who don’t have the political power and grease to extort money and skim taxpayers, which is gratuitously rude and scandalous, I agree, but which only shows the depth of my contempt for the huge, huge, cancerously huge, ridiculously and dangerously incompetent, ignorant and stupid system of governments in America, as exemplified by the despicable Congress and the even more despicable Senator Dodd.

But it turns out that “Law of Easy Money” was just a clever play on words, and was the story of how John Law talked France’s king, Louis XIV, who had borrowed and spent France to bankruptcy, into letting him start a bank and force everyone to pay their taxes with a new kind of paper money that Mr. Law’s bank would create and, soon enough, loaning more gigantic supplies of paper money to finance the development of the king’s colonies in the New World, a fiasco now known as the Mississippi Bubble, an economic bubble where everybody got wiped out financially, the country was ruined and the aristocracy had their heads chopped off, which I am sure was not in the prospectus or brochure that the king got from Mr. Law.

However, the essay is not about how the French in the 18th century were a bunch of buttheads who didn’t know any better, or how we are a bigger bunch of buttheads who should have known better in the 20th century, or even about how we are going to suffer in the 21st century for knowing better but not acting better, but about, as the subhead says, “A 300-year-old example of quantitative easing.”

Of course, if you had to read A Tale of Two Cities in high school where all you learned was that it opens with the immortal line “It was the best of times, it was the worst of times”, or if you have ever seen a movie on TV about the French Revolution, you know it ends Very, Very Badly (VVB).

The blog admits that “the parallels with today are not exact”, which is true in that we seem to dress a lot worse in the ruffled-shirt and hat-with-feathery-plumes department, a grim sartorial fact which is not mentioned, but two differences which are mentioned are “Law’s system took just four years to collapse; today’s fiat money regime has been running for nearly 40 years”, and “the growth in money supply has been less excessive this time.”

Lest you take any cheer from that, beware that the summation says, “But one lesson from Law’s sorry tale endures: attempts to maintain asset prices above their fundamental value are eventually doomed to failure.”

And what big failures they are going to be, too, as I gather from The Wall Street Journal reporting that “Much to their dismay, Americans learned last year that they ‘owned’ Fannie Mae and Freddie Mac. Well, meet their cousin, Ginnie Mae or the Government National Mortgage Association, which will soon join them as a trillion-dollar packager of subprime mortgages.” Trillion-dollar!

In case you didn’t know, “Ginnie’s mission is to bundle, guarantee and then sell mortgages insured by the Federal Housing Administration, which is Uncle Sam’s home mortgage shop. Ginnie’s growth is a by-product of the FHA’s spectacular growth. The FHA now insures \$560 billion of mortgages – quadruple the amount in 2006.”

Now, the scam has gotten so huge that “Among the FHA, Ginnie, Fannie and Freddie, nearly nine of every 10 new mortgages in America now carry a federal taxpayer guarantee”! Yikes! 90 percent of mortgages!

This probably explains why “Only last week, Ginnie announced that it issued a monthly record of \$43 billion in mortgage-backed securities in June”, which is pretty astonishing when you multiply \$43 billion in one month by 12 months in a year, and I suggest you not do it because the answer will scare you to death.

Not so astonishing, then, is the news that “Ginnie Mae’s mortgage exposure is expected to top \$1 trillion by the end of next year – or far more than double the dollar amount of 2007.”

And all of this money, all these trillions and trillions in new money, must come, directly or indirectly, from the Federal Reserve creating it, which means that A Lot Of New Money (ALONM) is being jammed into the economy, which means (if you are a Junior Mogambo Ranger (JMR)) that the government is acting like irresponsible halfwit scumbags, and doubly so in letting the Federal Reserve do it, and that history has shown that the only thing that is going to save your proletariat butt in the inevitable collapse is gold.

History is not quite as convincing about armored bunkers in one’s backyard or the efficacy of sheer firepower against the sustained assault of hordes of desperate, angry, starving people in a decidedly “nothing to lose” mood who are outraged that they were betrayed when they trusted the value of the dollar and the Federal Reserve supposedly maintaining its purchasing power via monetary policy, and they trusted the Congress to handle fiscal policy wisely and who had the power to control the Federal Reserve’s handling of monetary policy, but we’ll soon see!

But at least we have the safety and security of gold!