

Financial Circulatory System

By [The Mogambo Guru](#)

07/20/09 Tampa Bay, Florida I was surprised to see that the government made \$81.4 billion in cash out of papers, inks, and base metals in the last year, taking the total Cash in Circulation (essentially the M1 money supply) to \$907.4 billion, whereas the M2 money supply is about \$8.3 trillion (9 times larger) and (saving the best for last) **the M3 money supply, which counts everything that can possibly be construed as “money” in the most liberal sense and making all kinds of assumptions, is almost \$15 trillion**, as close as anyone has been able to figure out, meaning that the money supply, at least as measured by M3, is now larger than the economy of USA!

For all you “velocity” freaks out there – and there are quite a few of them – substitute GDP as the “P” times “Q” part of Fisher’s famous equation $MV=PQ$ (or, Money supply times Velocity of money equals Price of everything sold times Quantity of things sold) and you get a Velocity of less than 1! Hahaha! **What in the hell is a velocity of less than 1? Hahaha!**

Before you fire off another venom-laced email where you insult my intelligence just because I sound so stupid, act so stupid and look so stupid, I already know it doesn’t mean anything that I can understand, mostly because I am kind of, well, stupid.

But it is only an example of the kind of weird, strange crap you will see from now on, especially when all those trillions of dollars that have been created are exchanged for toxic assets, and all the future trillions of dollars to be printed by the Federal Reserve to finance the government’s massive deficit-spending, start burning a hole in somebody’s pocket, probably thanks to Congress coming up with some new “Get ’em buying!” tax scheme that will, inevitably, backfire and make everything worse and worse until it all collapses into what we hotshot professional economists call a Big Worthless Pile Of Financial Crap (BWPOFC).

And the reason that I am so sure of things turning into a BWPOFC is that, as Milton Friedman so famously said, **“Inflation is always and everywhere a monetary phenomenon,”** which seemingly guarantees inflation in consumer prices as a result of all of this new money flooding into the world’s economy, which is a monetary phenomenon in itself, in that it has only been tried by desperate countries in a last-ditch, kamikaze blaze of what they hoped would be glory, but was instead, always and everywhere, turned out to be just stupidly suicidal.

And how much inflation can one expect? Good question! The answer is remarkably symmetrical, as Howard Katz of thegoldbug.net says, **“Over the past year, the amount of money in the U.S. has increased by almost exactly \$1 trillion. This is a 70% increase from a year ago,”** and “it will cause an approximately 70% increase in prices with a 1-2 year lag time,” which, looking at my watch before realizing it does not have a calendar, has already been 1 year of this “1-2 year lag.”

Billionaire Warren Buffet, who is not given to hyperbole and outlandish forecasts, says that he expects inflation to be as bad as it was in the '70s. And how bad was that? Mr. Katz says, "The greatest price increase in American history was 13.3%, in 1979."

And if you don't think that gold will shoot up when inflation starts roaring like that, then you are obviously new at this investing business and you haven't had time to look at what happened to **the price of gold when it was \$35 an ounce in 1970 and over \$800 an ounce by 1980** when the inflation (from the vast expansions of the money supply needed to simultaneously finance the War on Poverty and the War in Vietnam) was rising along this same parabolic ride.