

Why Increasing Bank Credit Can Only End in Catastrophe

By [The Mogambo Guru](#)

02/14/11 Tampa, Florida – I have to admit that I was stunned that Fed Credit (the magical fairy dust from which money appears out of thin air) two weeks ago went up by a huge \$19 billion, which the Fed itself used to buy \$18.4 billion in government debt. In one week! In One Freaking Week (OFW)!!

As [Eric Fry](#), Editorial Director of *The Daily Reckoning*, puts it, “The effect of this bizarre transaction is that one branch of the government issues debt securities, while another branch of the government purchases those securities”!!!

You can tell by my OFW acronym and extreme punctuation that I am still upset about all this new money and all this new debt, even though it is exactly as per the plan laid out by the Federal Reserve, which causes people to ask, “What in the hell is wrong with you, you Big Mogambo Idiot (BMI)? The Fed said that they were going to do it, and now they are doing it! So, why all the OFW crap and all the exclamation points making you look like some kind of raving idiot?”

Now, here is obviously a case where somebody needs to have their face slapped, hard and repeatedly, until they get some smarts that all this money is going to cause inflation in prices, in this case food, which is the cause of (at last count) riots in at least 6 countries so far.

I can sort of sympathize with the rioters, in that the incessant crying of starving children really gets on your nerves after a Very Short While (VSW), and perhaps the parents think that the relative peace and quiet of a street riot would be a welcome relief! Or at least drown out the kid’s noise! Hahaha!

No, seriously, while I can sympathize with people not being able to afford food, I can still laugh at them – hahaha! – with Undisguised Mogambo Scorn (UMS) because they ignore the root of their problem: Their central bank has been creating too much money, which causes the inflation in prices!

Yet, as far as I know without actually trying to find out, their central banks are unharmed, instead of being burnt to the ground, and the central bankers cowering within are not being arrested and thrown into some kind of horrible medieval dungeon, all the assets of all the bankers confiscated and sold, and the money used to buy gold to put the country back on a gold standard which would eliminate inflation. But they don’t! Morons! What a bunch of morons! You can see why I laugh! Hahaha!

Closer to home, last week’s stupendous increase in Fed Credit, to create new money so that the federal government can borrow that money and deficit-spend it, seems to be, finally, showing up in the St. Louis Fed’s estimate of the monetary base.

The base had more than doubled, almost overnight, from \$830 billion in September of 2008 to \$1,700 billion three months later, finally peaking in November of 2009 at just over \$2 trillion, whereupon it kind of meandered around at that level until turning down in the middle of 2010, finally “bottoming” in October 2010, for a total downturn of \$50 billion from the \$2 trillion peak 10 months earlier.

Now, a lousy four months later, the monetary base has regained the entire \$50 billion, and is sitting at \$2.047 trillion, and rising, like Treasury Gross Public Debt is rising, which is (to use a *Simpsons* phrase), “rising like a rocket with a rocket up its butt.”

This is all because, as Ben Bernanke warned, not hiking the debt ceiling could put the US “into a position of defaulting on its debt and the implications of that, for our financial system, for our fiscal policy, for our economy, would be catastrophic.”

On this point he is entirely correct, as loathe as I am to agree with Ben Bernanke about anything, but catastrophe is, sadly, the predictable “end game” of the Fed’s insanity of constantly increasing credit in the banks over the decades, and letting the banks engage in insane levels of fractional-reserve banking to turn this new credit into money where, at its height, reserves never increased so much as A Freaking Dime (AFD), even as loans and leases increased more and more and more! Not AFD!!

In fact, Required Reserves in the banks is still a miniscule \$70 billion, which is the banks’ “cushion” against the risk in holding more than \$7 trillion in loans and leases, which mathematically comes to a measly 1%! Hahaha! One lousy percent! Some fabulous “reserves” alright! Hahaha!

The last 4,500 years of history have shown pretty conclusively (“100% of the time! Can’t fail! Never misses!”) that it’s going to be a Big Ugly Mess (BUM) for an economy whose idiotic people let the damned government let the damned bankers create so damned much fiat money.

And, by extension, it is going to be a Big Ugly Mess (BUM) for the whole fiat-money scumbag WORLD when the biggest fiat-money scumbag economy in the world, upon whom they all depend, goes belly-up, which it will because it must, which is why it has always happened Just This Way (JTW) for the last 4,500 years.

And while it may be a BUM for most people, it won’t be for everybody. And who are these lucky people who will prosper when all others fail? Those fortunate few who had enough sense to own gold, silver and oil, and thus for whom things will be just peachy!

Whee! This investing stuff is easy!