

Why the Fed Creates So Much Money

By [The Mogambo Guru](#)

01/19/11 Tampa, Florida – One of the reasons behind the Federal Reserve creating so many trillions and trillions of dollars in new money is so the stock market will go up so that more taxes will be collected, and the bond market will go up so that more taxes will be collected (and less interest paid by issuers, too!), and the housing market will go up so that more taxes will be collected, and prices of everything will go up so that more taxes will be collected, so that massive, backbreaking, bankrupting deficit-spending by the government can continue going up.

The astute Junior Mogambo Ranger (JMR) senses, as do I, an ominous theme in there somewhere, although any snap judgment may be hasty, as it is entirely possible that an alternative reason for the Federal Reserve creating so much money is that the Federal Reserve is, in a word, evil.

Or perhaps the Federal Reserve is filled with robots under the control of beings from outer space. Creatures from another planet are “softening us up” before their main battle forces get into their flying saucers and come eat us, enslave us, or (as seems to be their usual practice) probe our orifices.

So far, there is nothing about “monsters from outer space” at zerohedge.com, although you will notice that I said “so far.”

But I did see at zerohedge.com that Tyler Durden quotes SocGen’s Albert Edwards as saying, “I would suggest that although GDP growth may be more closely related to the absolute growth of the working population, asset price inflation may be more closely related to the proportion of workers in the general population.”

Of course, speaking as I do as a guy who invests solely to make a lot of money fast with minimal work, I have no idea what this would mean, or why I would even mention it at all, except as a question on the mid-term exam, such as:

Question #1: “GDP growth is to absolute growth of the working population as asset price inflation is to (blank).”

The exact answer is, of course, “proportion of workers in the population,” but I will also accept “We’re freaking doomed!” or anything along the lines of, “The damned Federal Reserve creating So Freaking Much Money (SFMM) that the prices of a lot of things will increase.”

I will also accept the answers, “The evil Federal Reserve destroying us,” “The loathsome neo-Keynesian econometric idiot-savants at the Federal Reserve are ruining the value of the dollar,” or anything that suggests that instead of taking some stupid test, they should be out buying gold, silver and oil with a frantic, manic hyperactivity as desperate protection against the catastrophic inflation in prices that will result from the Federal Reserve creating so monstrously much money.

But I soon saw that I was wrong in interpreting the importance of this interesting face, being blinded by my impatient greed, thus being so shortsighted that I missed the long-term implications of things, in a kind of “tendency” and “gravity” and “inevitability” kind of way.

He explains, “If that is the case, as the former baby-boomers start to retire, this burgeoning cohort will tend to liquidate assets. This only exacerbates the secular bear market for property prices (which have already begun to decline again), as well as the equity market.”

Hmmm! Fewer buyers, more sellers? It is the old supply/demand dynamic, and it’s pointing to lower prices, but – and probably very importantly! – curiously being offset by the Federal Reserve creating so much new money, to monetize so much new debt, so that all of this sheer, overwhelming tonnage of new money has to end up somewhere, and the stock, bond and derivatives markets are the only things which can absorb So Freaking Much Money (SFMM).

In practice, Mr. Edwards says, “This means that Bernanke for all his efforts may not be able to prevent the secular valuation bear market fully playing out until rock bottom valuations are reached.”

Mr. Durden says, “oops.”

I, on the other hand, say, “Whee!” because at stock market bottoms, one ounce of gold is about all it takes to buy the Dow, or buy the S&P500, or a few ounces for houses, or cars, or anything you can name, all because of the incredible rise in the price of gold, all because of the incredible rise in inflation, all because of the incredible rise in the money supply, all because of the evil Federal Reserve creating so incredibly much more and more money.

And with gold and silver still hovering incredibly at these low, low, bargain-basement prices, at the same time as so incredibly, outrageously much money is being created by the Federal Reserve and spent by the odious Obama administration, buying gold and silver is so glaringly obvious and childishly simple that you can’t help saying, “Whee! This investing stuff is easy!”