The Worldwide Crack Up Boom, According to Ludwig Von Mises

By Bill Bonner • June 26th, 2007 • Related Articles • Filed Under
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A kiss is still a kiss. A sigh is still a sigh. And a bubble is still a bubble.

When a kiss is over, it's over. When a bubble pops...well...that's all she wrote! All kisses end - even the wettest "French" kisses. And so do all bubbles - even sloppy mega-bubbles of liquidity. This one will be no exception. But of course, it's not the certainties that make life interesting...it's the uncertainties - the known unknowns and the unknown unknowns, as Mr. Rumsfeld says. We are all born of woman and end up where all men born of women end up - dead. But that doesn't mean we can't have some fun between baptism and last rites.

You'll remember we said that this worldwide financial bubble is both worldlier, and more financial than any in history.

And, for the moment, it is very much alive. So much alive that the media can hardly keep up with it. Forbes magazine, for example, tries to estimate the wealth of the world's richest people. But the rich don't typically give out their balance sheets, telephone numbers and home addresses. So, there's a fair amount of guesswork in the calculations.

But when it came to guesstimating the net worth of Stephen Schwarzman, founder of Blackstone, the Forbes crew wandered off into fiction. They put his wealth at about $2 billion. Recent filings in connection with the new Blackstone IPO show he earned that much in a single year!

In this phase of the bubble, it is as if your neighbors were throwing a wild party - and you weren't invited. You detest them... envy them... and want to join them, all at once. A very small part of the population is having a ball; everyone else is getting restless and wondering when the noise will stop.

We wish we knew. And we've given up guessing.

Meanwhile, the experts, commentarists, kibitzers and analysts are saying that there is a whole new phase of the giant bubble about to unfold; things could get a whole lot crazier. Even many of our respected colleagues are pointing to a text by the great Austrian economist, Ludwig von Mises, for a clue. What we have here, they say, is what Mises described as a "Crack-Up Boom."

Before we go on, readers should be aware that the "Austrian school" of economics is probably the best theory about the way the world works. Like The Daily Reckoning, it is suspicious of efforts to control the natural workings of an economy, in general...and suspicious of central banking, in particular. The fact that it was a one-time "Austrian," Alan Greenspan, who became the most celebrated central banker in history, only increases our suspicions. He was able to master central banking, we imagine, because he understood what it really is - a swindle.

What is a "Crack-Up Boom?" Von Mises explains (with thanks to Ty Andros for reminding us):

"'This first stage of the inflationary process may last for many years. While it lasts, the prices of many goods and services are not yet adjusted to the altered money relation. There are still people in the country who have not yet become aware of the fact that they are confronted with a price revolution which will finally result in a considerable rise of all prices, although the extent of this rise will not be the same in the various commodities and services. These people still believe that prices one day will drop. Waiting for this day, they restrict their purchases and concomitantly increase their cash holdings. As long as such ideas are still held by public opinion, it is not yet too late for the government to abandon its inflationary policy.'

"But then, finally, the masses wake up. They become suddenly aware of the fact that inflation is a deliberate policy and will go on endlessly. A breakdown occurs. The crack-up boom appears. Everybody is anxious to swap his money against 'real' goods, no matter whether he needs them or not, no matter how much money he has to pay for them. Within a very short time, within a few weeks or even days, the things which were used as money are no longer used as media of exchange. They become scrap paper. Nobody wants to give away anything against them.

"It was this that happened with the Continental currency in America in 1781, with the French mandats territoriaux in 1796, and with the German mark in 1923. It will happen again whenever the same conditions appear. If a thing has to be used as a medium of exchange, public opinion must not believe that the quantity of this thing will increase beyond all bounds. Inflation is a policy that cannot last."

Mises is describing the lunatic phases of a classic inflationary cycle.

At first, no one can tell the difference between a real dollar - one that is earned, saved, invested or spent - and one that just came off the printing presses. They figure that the new dollar is as good as the old one. And then, prices rise...and people don't know what to make of it. Later, they begin to catch on...and all Hell breaks loose.

You see, if you could really get rich by printing more currency, Zimbabweans would all be as rich as Midas, since the Mugabe government runs the presses night and day.

Von Mises died in 1973 - long before this boom really got going - let alone cracked up. He may never have heard of a hedge fund...or even a derivative, for that matter. A world money system without gold? He probably couldn't have imagined it. People spending millions of dollars for a Warhol? Twenty million for a house in Mayfair? Chinese stocks at 40 times earnings? He would have chuckled in disbelief. He understood how national currency bubbles expand and how they pop, but he probably never would have imagined how insane things could get when you have a whole world monetary system in bubble mode.

He'd have recognised the beginning of this bubble...and he'd have recognised the end, but the middle...or the beginning of the end - that would have dumbfounded him. During his lifetime he saw a Crack Up Boom in Germany in the '20s...and a few more here...but he never saw a worldwide Crack Up Boom.

No one, anywhere, has ever seen a worldwide Crack Up Boom. We're the first, ever. Pretty exciting, huh?

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