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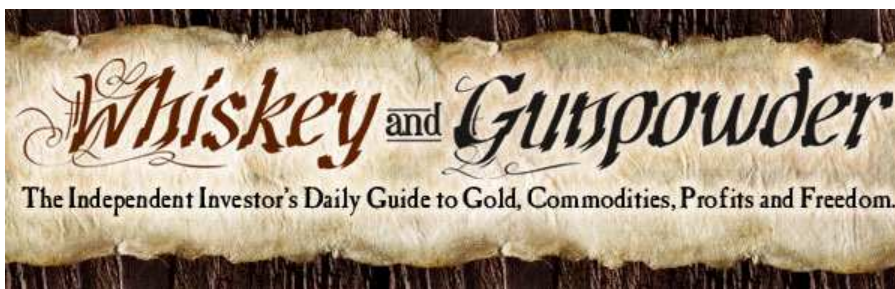
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Gary's Note: The very first global Crack-Up Boom is underway and there will be nowhere in the world to hide from it. The times will be interesting for everyone, disastrous for most, but maybe not absolutely everyone. Bill Bonner warns us (in an excerpt from his and Addison Wiggin's latest book, *Financial Reckoning Day Fallout*) what the boom will look like with a little help from von Mises. Then we'll try to figure out how to take a little shelter to ride it out.

The Worldwide Crack-Up Boom

By Bill Bonner

August 8, 2009

Baltimore, Maryland, U.S.A.

A kiss is still a kiss...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,” we remember thinking before the carnage got underway. 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 said. 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.

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The worldwide financial bubble we faced was both worldlier, and more financial than any in history.

And, in the summer of 2007, it was still very much alive. So much alive that the media could hardly keep up with it. *Forbes* magazine, for example, tried 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.

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 that 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.

Meanwhile, the experts, commentators, kibitzers, and analysts were saying that there is a whole new phase of the giant bubble about to unfold; things could get a whole lot crazier.

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Even many of our respected colleagues were 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 our newsletter, *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:

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.

~~~~~Special~~~~~

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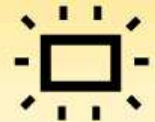
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Von Mises died in 1973 — long before this boom really got going — let alone cracked up. He may never have heard of a hedge fund...or even a derivative, for that matter. A world money system without gold? He probably couldn't have imagined it. People 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 recognized the beginning of this bubble...and he'd have recognized 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.

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

Regards,
Bill Bonner



A Parting Shot...

"Do not get drunk on wine, which leads to debauchery..."

I'm not sure what sort of debased lushes the Ephesians were that Paul had to be so explicit...but this remains excellent advice...the sort your editor usually takes to heart...usually...

Last night was the company social, Shooters, the one with the open bar. I managed to comport myself well enough, at least till the function was over and I was loosed upon the wide world. A couple other Agora Financial employees took flight with me. Our combined blood alcohol levels boded ill.

And here's a tidbit from *Whiskey & Gunpowder* founder **Greg Grillot**, who aims to make the discussion more empirical than dogmatic...

"It looks like Portugal is good for something after all! No longer just a has-been whose main claim to fame is their past robust trafficking in slaves and misery.

"Perhaps to account for its sins Portugal has become a beacon of liberty and an embarrassingly successful experiment. And it seems almost no one knows about it. Since 2001 Portugal has quietly proved that modern civilization won't end if hard drugs are decriminalized.

"That's right; in 2001 Portugal decriminalized all drugs. Yes, that includes the really scary ones like cocaine. Mind you, decriminalization does not mean that drugs are legal. It just means that drug possession and use are no longer criminal offenses, though drug trafficking still is. This strikes me as a bit stupid, but decriminalization is still a welcome step towards liberty.

"If you were to believe the lawmakers and law enforcement officers who proscribe our lives stateside, drugs have to remain legally prohibited or the heavens will fall and civilization will come to an end. We've heard the reasoning for so many years that we've convinced ourselves that it's true...except that it isn't...and Portugal goes a long way in proving it."

You can read all the details from Glenn Greenwald of the Cato Institute [here](#). There may be quiz later.

And here's a Shooter who can commiserate with the serviceman who wrote in...

The letter you posted from a military man regarding military healthcare really hit home. I had a kidney fail very slowly over the course of two years where various military medical personnel (Doctors and Corpsmen) diagnosed the pain as everything from a stomach virus to constipation. My tobacco chewing, shipboard doctor was one of them. I finally sought treatment while home on leave and the ER doctor, at a small-town hospital, correctly diagnosed the issue within five minutes. Unfortunately it was six months to late to save the kidney. A year later, a mis-diagnosed "sprain" of the foot turned out to be a broken navicular bone, which resulted in three pins and a plate in my foot.

The problems with military medical care came down to four primary issues:

1. Doctors and corpsmen were swamped with runny noses and colds, as sailors were required to have a sick note to miss work. Medical personnel operated under the assumption that the sailor simply wanted out of work for the day.

2. Corpsmen, who had little training, determined what cases actually got to see

the doctor.

3. Doctors were in no way incentivized to see patients.

4. Doctors were in no way incentivized to retain patients the way a private practice would be.

I can't imagine that these four factors wouldn't be huge issues in a government supported healthcare system.

Now, about letting women vote...

First, let's hear from the ladies...

I hate to admit it, but your respondent who blames the emergence of the nanny state on women may have a point. In talking to various folks I encounter daily, it seems that Obama-lovers are predominantly women who feel the gummint should do something to help them. I wonder what happened to the solid grounding in American history, which seems to have faded from the public schools starting at the time of integration. I was taught both at home and in school that self-respecting folks stood on their own two feet and helped their neighbors, not looked to their neighbors to help them. I'd have been horrified to admit I needed help, and back in the early '50's my young husband and I (at 17) lived on \$10 a week for groceries and cooked on a hotplate in a rented room until we could save up enough to do better. Who changed the curriculum of self-reliance?

Fellas?

Regarding the Nanny-state because of women voting as the one reader quoted John Lott: Unfortunately, I had that same idea building in my mind. I'm originally from Switzerland and one of the first ballots I filled out (1971 in the canton of Zurich) was to give women the vote for national elections (I believe they had it for cantonal elections). I did vote for the measure. As I have been getting older I have increasingly wondered whether that was the right thing to do at the time. Looking at what I hear from my family (I emigrated in 1974 and last visited in 1980), socialism has been creeping into Switzerland as well over the years - and it does not look like it improved anything for the population there any more than in the USA or Zimbabwe.

Perhaps a bit surprisingly, no one seemed to take umbrage at the suggestion. Here's a sentiment that is close to my own...

So the solution (according to one Shooter) is taking away women's right to vote? I really couldn't care less. Voting is a privilege given by the warden to make the prisoners think they have a say in how the prison is run. It's a complete fraud (just like the Constitutional Contract it's based on). The only sane answer is to stay home. If nobody voted, the lie would collapse, the fraud would be exposed and the impotence of government would be evident for all to see.

Confession time. I can't vote! And I'm feeling fine!

Unlike Obama, I will allow there to be no question about my citizenship...

Your editor was born on a distant tropical shore in an old house on the family plot. At the time the tropical shore was still vaguely a British colony. Complete independence and corresponding citizenship didn't come till your editor was approaching his third year of life...

Which is also about the time that my parents dragged me to Brooklyn, New York, where I would spend my youth.

Don't worry. I'm here legally...for now...

I remain unburdened by the legal ability to vote. My perspective is one conditioned by cheerful lifelong disenfranchisement. I'm therefore less prone to fall for the notion that voting is productive and that democracy is inherently a good thing.

All the denizens of the *Whiskey Room* — even those with the legal right to push knobs for their favorite smiling psychopaths in nice suits — would uniformly urge you to just say no.

In fact, you can just say no here at our new webpage [Stop the Vote](#).

All this talk about women voting got me to thinking about how much democracy really annoys me.

So I opened my wallet and pulled out the \$198 I had earmarked for the day's supply of Maker's Mark and I bought a domain name!

Give liberty a hand...kill democracy...and knock off all that darned voting! Check out what the *Whiskey Room* is up to [here](#).

Regards,
Gary Gibson
Managing Editor, *Whiskey & Gunpowder*



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