

Gluttonous Indulgences

By [The Mogambo Guru](#)

08/25/03 Learning how to be 'flexible,' with...Mogambo on Monday!

Mars, a planet we Earthlings have never trusted because its inhabitants are always launching some sinister invasion plan, and if you don't believe me all you have to do is watch old movies on TV some rainy Saturday afternoon and you will learn what I am talking about, is now closer to the Earth than it has been for a long time, and closer than it will be for the next big bunch of years, the exact number of which doesn't matter because we will all be long dead and buried when it happens again.

But it means that the invisible mind-controlling rays that they are beaming at the Earth are now that much more powerful because they are closer to us, and the single-ply aluminum foil hats that we are all wearing in self-defense are now too thin to provide the requisite level of protection.

One of the guys I figure obviously failed to beef up cranial security is the Prudent Bear's Marshall Auerback. He has weighed in with an essay entitled "Euroland's Deficit Hawks Are Wrong" and decided that Euroland needs to scrap its stability pact so that things can get back, somehow, to growth and stability via deficit spending.

Although he quotes the Greek Finance Minister Nikolaos Christodoulakis, who said, "I have never believed, and do not believe that unrestrained handouts, wide deficits and increased debt create conditions for growth or social policy. On the contrary, they lead to stagnation and recession," Mr. Auerback disagrees with that trenchant assessment of stark Reality As We Know It. Instead, Mr. Auerback, who I must assume is suffering mightily from the aforementioned Martian rays, insists that Mr. Christodoulakis, who is obviously a deficit-hawk, is wrong in this instance.

Marshall Auerback: Dangerously Fragile

While maintaining that Mr. C is right in the theoretical big picture, Mr. Auerback nonetheless takes the opposing tack and says that now, right now, things are so dangerously fragile that it is appropriate to disregard the stability pact that requires fiscal deficits to be 3% or less of GDP. According to Mr. Auerback, who is obviously not in his right mind due to these aforementioned Martian rays, "These are not normal times, and solutions need to move beyond prevailing economic orthodoxy," which I assume is defined as "What everybody agreed to do and everybody concerned agreed was the right thing to do." I suppose that this is in line with Alan Greenspan's vow to use "unconventional methods" to jam growth down the throat of the U.S. economy.

Well, then, why AREN'T these normal times? Because, like a morbidly fat person that has gorged himself for years and years and who now no longer resembles a normal person,

economies that have gorged themselves for years and years on one feel-good central bank and government idiocy and malinvestment after another, the economy likewise no longer resembles normality.

And getting beyond that, what, exactly, is the prescription that is beyond this normal orthodoxy that poor Mr. Auerback says is not needed? In the case of the morbidly fat person, I suppose the doctor is supposed to prescribe milkshakes and cookies? And in the case of Euroland, which is what we started talking about before I got sidetracked into a pleasant reverie about milkshakes and cookies, it is more feel-good excesses of credit and money?

I strongly disagree with both the physician and Mr. Auerback for four, count 'em four, reasons. First off, the reason that they are IN the damn mess they are in is because they acted like they DID believe, again quoting Mr. Christodoulakis, that "unrestrained handouts, wide deficits and increased debt create conditions for growth or social policy."

Marshall Auerback: Not the Right Path

The second reason is that breaking the pact to allow "unrestrained handouts, wide deficits and increased debt" is NOT the path one takes to get one's house in order, as gorging on milkshakes and cookies is NOT the path one takes to get slim and trim, although both are, to be sure, satisfying and delightful to those chugging them down, and as one who has chugged down his fair share of milkshakes and cookies in his life, I happen to be somewhat of an expert in that area, and I am highly disposed to break off this whole train of thought and go have some of each right now.

The third reason is that inflation is rising at the same time as the economy is stagnating, and adding more excess money and credit will make it predictably worse.

And the fourth reason is that this is pure situational ethics; when times are good the argument is that the economy will grow out of the problems, and so the problems are never corrected, and when times are bad the argument is, as Mr. Auerback says, that it is always "the wrong time" to address the problems, since it would add misery to people who were already miserable. So, therefore, there is NEVER a good time to address the problems, and so the problems grow and grow. If you know how to make something good happen when you never address a growing and deadly problem, then you need to register to run for governor of California, because you are obviously brighter than me and everybody else I ever knew.

If there is one thing that you can take to the bank, it is that Euroland, like everybody else, will certainly take any opportunity to continue right down that same feel-good path that got them where they are now. Mr. Auerback even quotes a guy named Professor Paul de Grauwe, who said the same thing, in a Financial Times piece, which reads, "Structural reforms...are very difficult to implement in democratic societies. They imply changes in the distribution of income and in economic security, and are resisted by those who are called upon to be more flexible. The implementation of these reforms will take many years." I like that; asking people to be "flexible," which is a euphemism for "not acting like grubby, greedy little children who will always show

their petulant pique by voting for any yahoo that advocates bankrolling all of the wishes of grubby, greedy little children, regardless of the disastrous consequences of doing so."

And I am faaarrrr too old and jaded to believe that "this time is different," or that any politician has learned any lessons, or that any citizen in the whole of Euroland enjoying their bankrupting cradle-to-grave nannyism is going to sit still for even the minutest change in their extensive menu of unearned benefits and unearned lifestyles. Oops, I mean, I don't think they are going to be "flexible."

Marshall Auerback: Told You So

From a more philosophical perspective, which you will immediately recognize as "I told you so," to even imagine that there even COULD be a single currency and monetary regimen against a dozen separate fiscal and nationalistic policies was, as I stridently proclaimed in my snottiest voice the whole time, ludicrous to start with. And trying to overcome the stupidity of even thinking such a thing was even remotely possible, given the inflexibility of the voting populace, was the reason for the strict pact in the first place.

And now that I, the mighty Mogambo, and all the other nay- sayers have been proven correct, here come the experts, saying that what Euroland needs is do more of the exact wrong thing, namely to run as much deficits as necessary, for as long as necessary.

Mr. Auerback writes that the EU should "pay more attention to structural deficits so that a country's fiscal deficit would be judged in relation to its economic cycle." And what in the hell CAUSED the economic cycle in the first place, except for central banks and redistributionist governments creating more and more excess credit and money so as to enlarge and expand a increasingly dysfunctional and bankrupting economic paradigm?

So I am being asked to believe, like we here in America are being asked to believe, that the governments acting like jerks can be cured by the governments being given leeway to act like bigger jerks? My God! I thought only we Americans and the Japanese had cornered the market on that kind of idiocy! The mind reels!

Marshall Auerback: Bearing the Burden of Budget Consolidation

Fortunately, the Europeans may be saved from their fate, as they have the fabulous advantage of having the clear-headed Wim Duisenberg in charge of the EU, and although I have not seen any recent photographs of Mr. Duisenberg lately, I am pretty sure that he is wearing an aluminum foil hat and staying strictly out of the line of sight with Mars. How do I know this? Because he said that the Euroland countries have not used the good times to "...consolidate their budgets. Now they bear the burden of it." Exactly right!

See? Didn't I tell you he was clear-headed?

And like the fat slob in the doctor's office, whining and complaining about always feeling hungry and out of sorts because a necessary low-calorie diet is the only thing that will save his life, it is a burden they must bear, and hopefully learn from.

Not that they will. And not that we will, either. Until it is too late. And probably not even then, since neither they nor we have shown any inclination in that regard, because if either of us had, we would not be in the mess we are all in now.

Now, all of this petulance may be caused by the results of my own gluttonous indulgences, as I went to a party over the weekend where there was this gigantic taco bar, see, and of course I made a big embarrassment of myself in front of my wife who was doing her wifely duties by reminding me, by slapping me on the back of my head, that stuffing tacos into my mouth with both hands was one thing, but making horrible slobbering and grunting noises while doing it was quite another, and so I was finally reduced to constantly fending her and all the other guests off with one hand and stuffing innumerable delicious tacos into my mouth with the other. And now I am reminded, days later, that mature men cannot act like starving, ravenous beasts, and that the penalty of ridiculous, massive overindulgence is lethargy and indigestion, replete with moaning and groaning.

But I feel a little better, now that I know I was just being, ummm, inflexible.

Warm regards,

The Mogambo Guru,
for The Daily Reckoning

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P.S. Mogambo Sez: Insiders are selling. NYSE Members are selling. Specialists are selling short. So who in the hell is doing all this buying? And why?