

Mogambo Monday

By [The Mogambo Guru](#)

10/20/03 Mogambo on Monday!

The great one is horrified at this year's choice for the Nobel Prize in Economics... especially since they have eclipsed his own bid, yet again.

I note with a certain shudder that econometricians have won the Nobel Prize in Economics this year. And if there is one thing that raises goose-bumps up and down my spine, it is econometrics. This is the crowd of mathematical idiot savant dimwits that got us where we are today, as they prove that up is down, square is round, left is right, and black is white. When psychiatrists can accurately measure personal behavior, and then use that to accurately measure crowd behavior, and use that to accurately predict crowd behavior over the long term, THEN you can start giving out prizes in econometrics. But not a minute sooner, as far as I am concerned. Perhaps an analogy will help to explain.

Econometrics: Let Godzilla Destroy Tokyo

It's Saturday morning. You are slouched in front of the TV, having a cup of coffee, trying to ignore your wife screaming at you, "Are you going to sit there in your underwear all day watching TV?" and there is this movie on, and an exciting one, too, where Godzilla is attacking Tokyo. The army general is explaining that they are optimistic, although to date they have found that guns, rockets, grenades, tanks, fighter aircraft and large-diameter artillery have proved totally ineffective against this enormous, rampaging monster. Meanwhile, Godzilla continues terrorizing the city infrastructure, stomping on bridges and things.

Now, here is where it gets weird, because the hero, who is an American economics professor, is explaining how econometrics proves that this whole Godzilla thing is not as bad as it looks. "Consider that the clean-up and rebuilding of a devastated Tokyo, which would unleash a massive burst of economic activity, as you can see in my new equation!" he says. "Construction jobs for everybody! More activity! More spending!! Therefore more taxes! And therefore more government programs, which will cost us nothing, because they were paid for by the increased economic activity!"

And then the American economist hypnotizes everybody by waving some equations and computer models seductively, and says the magic words "Nobel Prize And Incomprehensible Math! Nobel Prize And Incomprehensible Math!!" and convinces everybody that these Nobel Prize winning equations prove, with the he absolute finality of mathematical precision, that letting Godzilla destroy the city and kill all the people is a recipe for a glorious boom! That will end up making everybody rich!

Econometrics: Why the Pharaoh Should Build Pyramids

In a rising wave of revulsion, you look at your coffee cup and wonder if the cat did something inappropriate in it, because a bad smell is suddenly coming from somewhere. But you decide it is just the movie, so you idly pick up the remote, and you switch over to another channel – click! – and there is a Pharaoh, whose American economist son-in-law is explaining how the mighty Pharaoh should pay attention to econometrics and start building pyramids, which would be a terrific program, and it would employ millions of people.

"And you are actually making an investment in the future," explains the American economist, laying prostrate before the divine king, "as the building boom would guarantee rising aggregate income, and the multiplier that I have included here in this ancillary set of equations proves that tourists will come from around the world to see these things. I mean, it ain't Disney Land or anything, but they are these huge freaking piles of rocks! And if you declare the pyramids to be one of the Seven Wonders of the World, you'll be knee-deep in tourists in no time, and you'll make a fortune, dude! I mean, oh Merciful and Wise Pharaoh, and Egypt will have a glorious expanding economy, and in the end we will all end up gloriously rich! And people will sing your praises forever, mighty Pharaoh, as I have proved mathematically that Egypt will always reign supreme over the whole world!"

No, apparently the analogies didn't help. Sorry. Unless it demonstrated my profound natural antipathy toward econometrics, and then it is a big success. And I have a natural antipathy towards it because Alan Greenspan and his Fed buddies all love that stuff, and, I mean, look around you at the result!

I almost hate to keep harping on this, but the one thing that happened that did NOT cause instant panic was the news that the central banks of the world, the G-7, having met at Dubai, all agree that the dollar is going to finally be devalued, but in deliberate, controlled steps!

Econometrics: Cut Their Own Throats

Therefore, every imported thing that you buy, from now on, will now cost you more, unless the exporters decide to cut prices and cut their own throats. Every day, day after day, more and more higher prices!

It staggers the mind! I am actually surprised to find that the world is not erupting in flames! If you check back through your library of Mogambo Guru, you will note that this is the damned price inflation that I say always follows monetary inflation. The same price inflation that always follows monetary inflation that the Austrians have always said was coming. And now it is coming to a theater near you! And now, it's here! This is it! The central banks have all agreed to do it!

So things will cost more! All thing will cost more. How much more? A lot more! Wake up! Get up and run for your life!

And the people who are paying these higher prices for things are going to then find that they have to charge more for the things that THEY sell, or suffer a decline in their standard of living! And so they raise THEIR prices! And then everybody else starts raising THEIR prices, and that

causes all OTHER prices to go up, and that increases costs, and so everyone finds that prices must be raised some more! And the rapid rise in prices causes the reported inflation rate to rise, and then interest rates rise, which increases costs to businesses, who must then raise prices to offset these new higher interest rates costs!

Perhaps an example from my own life will clarify. Suppose I only have ten bucks a day to spend on food, and I get a six-pack of beer, a tub of fried chicken, and a pack of smokes.

Then prices go up by ten percent. Then my ten bucks a day will only buy a six-pack of beer, a regular chicken platter, and a pack of cheap smokes.

Then prices go up by another ten percent. Now I can only afford two beers, an economy-sized chicken dinner, and a pack of really cheap smokes.

Then prices go up by another ten percent, and I can only buy one beer, a drumstick, and a pouch of "Cheap-O Loose Tobacco," which has the motto "Premium floor sweepings from real cigarette companies!"

Econometrics: Everything's Overpriced

And in case you are at a loss to understand why the sirens in the Mogambo Bunker are blaring, why the klaxons are sounding, why all the bells are ringing, or why I have maps showing emergency routes out of town, the answer is that price inflation is here!

So forget Godzilla smashing through your garage; the rapid rise in prices is going to be far worse than anything Godzilla can do to you!

Jonathan Clements, a columnist for the Wall Street Journal, wrote an interesting piece in last Wednesday's issue, entitled "Why the Rising Market is a Bummer: Practically Everything's Overpriced." And this is exactly what I have been saying, because it is what real economists have always said, namely excess production of money and credit eventually works its way into prices. And now this Clements fella says that the gigantic, cancerous volumes of money and credit generated by the profligate and totally irresponsible Fed for the last decade or two, and I see that I forgot to include a gratuitous insulting remark, such as "the Fed is also a bunch of morons who couldn't think their way out of a paper bag," has now worked its way into the prices of everything.

In the old days, of course, this used to be known as inflation. Now the Fed calls it "fighting deflation."

And when we say everything is overpriced, I do mean everything, from stocks and bonds, to houses, to collectibles, to overly generous government salaries and benefit packages, to overly generous executive salaries and benefit packages, to practically every other freaking thing under the damn sun.

Since I am one of those who grew up during a time when America was the smartest, toughest, wisest, richest and most wonderful dog on the street, it's embarrassing to watch, as we prove that we are among the dumbest dogs on the damn street. Because if there is one thing that you do NOT want, it is price inflation.

And yet here we are, creating credit and money at levels never before seen, guaranteeing roaring inflation! And we're doling out prizes to the geniuses who help make justify it with math.

Regards,

The Mogambo Guru , for The Daily Reckoning

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P.S. Just as I am putting the revolver to my head in a coward's way out, I notice that even California wised up enough to get rid of Gray Davis, so I am still hopeful that there is a spark of that old America left. And to show my gratitude, I am not going to say any bad things about California for a long time.

Mogambo Sez: S&P stocks are selling at 33 times earnings. Nasdaq 100 stocks are selling, by one estimate, at 8 times SALES, and another estimate is that the Nasdaq is selling for a P/E of 233. Houses are selling at over three times median income. Private household debt is financing 20% of GDP, and the debt is at record levels, both absolute and relative, in all of American history. Interest income has been slashed to negative real returns. Government deficit spending is exploding.

And gold is only selling for...?