

Mosey to the Hills

By [The Mogambo Guru](#)

11/17/03 The largest debt load any country, anywhere, in any era has ever seen...and a U.S. consumer that just might have reached his limit.

It has happened. Foreign holdings of U.S. debt held in custody at the Fed increased that teensy, weensy, last little bit, that last 6 billion smackeroos, and finally topped \$1 trillion last week. They had been waffling around, probably trying to stay under that milestone because it looks so bad. But last week, the need to keep the dysfunctional U.S. economic system liquefied, and the need to do something with all those dollars, that huge tsunami of dollars, that avalanche of dollars, that humongous freaking huge mountain of dollars that keeps sloshing into the system, got to be too much, I suppose.

The Treasury printed up another \$1.24 billion dollars for the week (probably to give to Iraqis). The U.S. is literally paying people their salaries, month after month, for which many of them do literally no work. So while it may be all humanitarian and all, it is, after all is said and done, still giving money to people who do not lift a finger to do any work. And the only reason I am so angry about it is that I am eminently qualified to get paid for doing no work, and often do no work at all for hours and sometimes whole days at a time, and sometimes even when I AM working I am doing it badly and am generally incompetent in every thought and deed, like when I am writing the Mogambo Guru for instance, but every time I go to the mailbox, there ain't no check there.

And speaking of the Treasury, that bunch of government spendthrift losers also floated another \$15 billion in debt for the week, hitting another new record for national indebtedness, for the jillionth month in a row, I might add. At this rate, the national debt will surpass \$7 trillion just about Christmas time.

National Indebtedness: More IOUs

Now, it used to be that little boys and girls got toys, or candy, or a piece of coal in their Christmas stocking that was so carefully hung by the chimney with care. Now we get a toys and an IOU from Santa Claus, played by Jerry Mathers, oops, I mean played by John Snow, Secretary of the Treasury. Which he will never pay, except with more IOU's, and he is using the money to give toys and candy to his little friends, who make the toys and candy. And then the jerk sends us a bill for the whole amount.

But, hell, we Americans are so busy running up debts of our own, and the government doling out money and benefits to an entire constellation of various special-interest groups, that we figure "What is one more big bill to pay? We'll just tap equity in our houses, or borrow against our retirement plans, or lobby Congress to give us more tax credits, or just borrow the money outright, or something. The government will think of something. The government ALWAYS thinks of something."

Anyway, holidays are always Happy Holidays for low-IQ losers like us! For example, September Consumer Credit increased \$15.1 billion, or 9.7% annualized, to \$1.975 trillion. So it looks like that particular indicator of debt will surge past its milestone, namely the \$2 trillion mark, pretty soon, too.

As the illustrious Martin Weiss expresses it, "Right now, American consumers are more deeply in debt than any other population in the history of mankind. But instead of helping people find a way to dig themselves out of debt, our government is perpetually looking for new ways to get them to borrow, spend and speculate more."

In a similar vein, your own illustrious editor, Bill Bonner, recently remarked: "For nearly 100 years, the ratio of debt to GDP was between 120% and 160%. Only in the 1929 bubble did it ever become really grotesque...peaking out at 260%. Guess what it is today? Over 300% and growing."

National Indebtedness: Throwing Money with Abandon

Normally, I would hyperventilate and have some cardiac event when I read something like this. But I am getting older, I had heard it before, and had seen the graphs of the same thing, so I am somewhat inured to the whole mess. Nowadays, instead of co-workers trying valiantly to get my heart started by jumping up and down on my chest with their damn heavy boots, or that time where they threw me out the window under the theory that the shock would re-start my heart, I now calmly walk around checking to make sure the doors are all triple-locked and the intruder alert/intercept system is on and armed, if you get my drift.

But that's not even close to all. Yes, the Fed is throwing money at the economy with abandon. And yes, consumers have lined up to get their greedy little hands on it as fast as they can. But – a portentous, foreboding, ominous thought fills my brain! – even as the Fed keeps the money spigot pumping, could the consumer queue be growing shorter?

"No matter how much the Fed inflates, it can't force businesses to borrow or banks to lend money," writes Jim Puhlava on Financial Sense online, looking at the decline in the money supply numbers and the lack of lending going on at the banks. "When the appetite for credit evaporates, the money supply starts to contract, which is what it is doing now."

Well, that explains why the M's are going down. But there is a downside to all of that, as Mr. Puhlava explains: "Now that the supply of money is contracting, there is less money to keep the economy and the markets expanding. This will become critical in the months ahead because this is a liquidity driven market. As the supply of money and credit contracts, so will the markets."

National Indebtedness: Oodles of Money

And that little bit of economics arcana explains one reason why the government is not waiting for us doofus slackers to borrow money and expand our businesses and keep the old economic ball rolling. They are, instead, printing up the money and spending it themselves. Lots of it. Oodles of it. Lots and lots of oodles of it.

And why aren't we borrowing money and getting with the economic expansion program? Mr. Paplava explains, "In summary, debt remains one of biggest impediments to a sustained economic recovery and continuation of this bear market rally. It is one reason why we still remain bearish. All of the malinvestments of the previous boom have yet to be liquidated. The Fed has merely postponed the day of reckoning not eliminated it."

And because he used the word "Fed," it calls for my usual knee-jerk reaction, which it to heap a little gratuitous disrespect on Greenspan and the Fed, with a really rude and disrespectful undertone, since I am always looking for an opportunity to do just that, because that is just the kind of guy I am, and which probably explains why nobody likes me and why everybody is out to get me. Mogambo fans sit in rapt fascination, watching mesmerized as I draw back my lips in a sneer of raw contempt, like Marlon Brando in "The Wild One," only more cool, more rude, and much more disrespectful, and say "They are all a bunch of jackass chumps whose idiocies will culminate in the ruination of the USA, you dig? Just as the idiocies of all other print- the-money morons in" (insert waving of arm to signify a broad expanse) "all of history have always ruined the economies that pursued such a bizarre and thoroughly discredited agenda."

And to add a nice little coda to the piece, I turn to the audience, wink with my charming boyish charm, and say "QED."

Regards,

The Mogambo Guru
for the Daily Reckoning

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P.S. Don't take it from me. In an article called "The Dollar Crisis: An interview with Richard Duncan," posted on the Prudent Bear website, Mr. Duncan is right on:

"This state of affairs cannot continue indefinitely. The United States cannot continue increasing its net indebtedness to the rest of the world at the rate of 5% of GDP per year. And, not even the US government can continue running \$500 billion dollar a year budget deficits forever."

Mogambo Sez: I'm not saying it is time to run for the hills, but maybe moseying over in that direction would be a really good idea.