

The Fed's Free Lunch Program

By [The Mogambo Guru](#)

09/29/03 Mogambo on Monday! Your weekly lesson in Mogambo-nomics...

By now, you must be aware that the FOMC has met and decided to leave interest rates at once-in-a-lifetime lows. And all you hear is how this is supposed to be such hot stuff. Money is cheaply available for investing and hiring and purchasing and all of that wonderful economics-stuff. And when I say cheap, I mean CHEAP! Short rates are actually less than the rate of inflation, giving you real rates that are actually negative! Wow!

Offering money at rates that are less than the rate of inflation actually translates into an offer for a free lunch. But, as the savvy dude or dudette that you are, you smile knowingly to yourself, because you realize that there is no such thing as a free lunch. In this case, the people paying for the lunch of lusciously low interest rates are the people who are being forced to loan money at these rates. That is, loan money at rates that are less than inflation, forcing them to lose buying power for the privilege of loaning strange people their money!

And there will be a price to pay, of course, as there is always a price to pay. Because, as you have heard over and over and over, and in fact you just heard it again from me in the preceding sentence, there is no such thing as a free lunch. Even though the Fed makes it look like there is.

And the people who are being forced to loan out their money at these historic lows are going to get their money back one day, you can bet on that. They are already making plans about how they are going to get that money back. Perhaps something (cue ominous music) unconventional.

Ben Bernanke: Unconventional Means

The term 'unconventional' apparently comes from Ben Bernanke, who is now an appointed, fully-fledged Federal Reserve weenie, against my advice. Although, to be fair, my literal advice was to get everybody to gather together and go down to the Fed and use pointed sticks to run everybody out of there, and make them disperse into the woods, and then burn the building, and everything in it, to the ground, and then scatter the ashes.

But Bernanke says that he will be happy to achieve monetary policy objectives by unconventional means, and nobody gets all shook up, except me. So I figure that we bedeviled savers out here ought to emulate Bernanke and his Fed, and commit 'unconventional' acts of our own. We have got to get our money back here! We are suffering deflation in our discretionary spending account! We demand the same rights as the Federal Reserve! We demand the right to commit unconventional acts and get away with them!

As for me, I have noted that food expense is one of those big-ticket items, and I have thus made a management decision to achieve gains in that area. Unwilling to reduce my consumption of Oreo cookies, although my wife spying on me already makes it difficult to sneak a few of those tasty

chocolate morsels, I must make gains with other, unconventional methods. One will certainly be to walk around the grocery store until I see a full shopping basket that has a lot of good stuff in it. When the person isn't looking, I shove a few bags of Oreos into it, and then it is a simple matter to follow them home from the grocery store and park down the street a ways.

Then they will have to make many trips carrying the grocery bags into the house, and there will be times when the car, which is still filled with bagged groceries, will be unguarded! Then I will run out take a few bags, and leave a five-dollar bill as payment! Now I realize that five bucks is not enough to pay for three full bags of groceries, but these are unconventional methods! I paid five bucks for the damn groceries, and now the person I bought them from is whining!

Ben Bernanke: The Same Damn Thing

"Hey!" I say. "The Fed, without your permission, takes your valuable dollars away and hands you cheaper ones, so it is the same damn thing! And this Greenspan guy you think is some (and here is where I use a real nasal, whining, sarcastic tone of voice) hotshot hero, (back to normal voice) but you are throwing Chinese Ninja Death Stars at me, even though we are doing the same damn, dangity blang, jam blagged ding-dong thing! I'm not stealing your food! I'm giving you money for your groceries! So gimme a break! I'm just using standard unconventional methods!"

Another of my brilliant unconventional plans is a classic Plan B, which is to sneak over to my neighbor's house with a long extension cord and tap into his electric power, and then I can run my whole house on free electricity!

Of course, I will dutifully go over to him at the beginning of each month and give him, oh, let's say, ummm, ten bucks cash. Now, I realize, and you realize, that my electrical power usage is much, much higher than that, especially considering my latest scientific research attempts to use extremely high-voltage magnetic fluxes to turn lead into gold, highly secret scientific experiments that have all been, I am sorry to report, utter failures so far.

But, and this is a big plus, I have that sunny optimism that flows naturally from being crazy and stupid, and I have plenty of both of those! So expect good news any day now!

You want unconventional methods? Buster, I can give them to you in spades!

One of the nagging questions about the Fed's free lunch recovery scenario, is, oddly enough, the same nagging question that my wife has. Namely, "Where is the money going to come from?" To her, I readily list my personal sources of where this money is going to come from, namely maybe we'll win the lottery or maybe a long-lost relative will leave me some money in his will, or maybe we will find an oil well in the back yard. To hear my wife tell it, it is all crazy talk, and she has some mindless, simplistic idea that there is one easy answer to all questions, one pithy Philosopher's Stone that will solve all the riddles, and that Easy Answer is for me to, you know, go out and get a real job. "Oh, sure, if you want to take the EASY way out. But you don't really want people to say that we are so lazy that we always take the easy way out, do you dear? Really?"

Ben Bernanke: Rising Bankruptcies

But I will admit, after long stretches of relentless grilling, that these are not truly viable sources of money on which to base our family economy, much less an entire national economic recovery.

According to the reports, I am not the only one asking this question. People are having such a hard time paying off their current debt load that they are going bankrupt in rising, and record-setting, numbers. The number of mortgages in arrears is also high and rising.

So where are we proletariat boobs out here going to get the money to buy all the stuff? Huh? Answer me that one freaking question, and I can tell you what the future will bring.

And since we can't seem to come up with anything, we all agree that we will NOT be buying any stuff. And thus we must also agree that this is only natural, since borrowing money for the purpose of current consumption merely moves the Modigliani life-cycle stream of purchases forward to the present.

Stepping to the blackboard, I say in a voice that is far too loud and with my patent-pending, irritating nasal whine, "Here we are at the Present, P and we are proceeding through time to" (and I make a great big arrow leading all the way to the other end of the blackboard) "the future, F. And this implies, by mathematical imperative," (and here I write $2 - 2 = 0$, to show the mathematical imperative that I had just alluded to) "that there be LESS consumption, C, in the future, F, because you, Y, consumed, C, that future stuff, or FS, today, N. The future, F, being, of course, where this Big Economic Recovery Thing, or BERT, is supposed to take place, or TP. Which is, and I define 'is' to mean exactly what even Clinton knows it means, today, T, or P sub zero, or N, depending on which one I was using before I lost track of where I was, but anyway this is where the past, P sub minus N, and the future, F, meet."

By this time the blackboard is filled with N's and P's and T's and all kinds of letters, and scribbled arrows linking them together in some psychedelic, madness-induced web of interconnections.

Ben Bernanke: Everything Happens in the Present

My voice rising in excitement and anticipation, I simultaneously beat and grind that poor little piece of chalk into the very surface of the blackboard with strength born of anger and betrayal, and, my voice rising to a fevered pitch, I continue: "And it is here, at the present, which is P, or N, or whatever in the dang-blanged hell you want to call it, THIS, and I mean right freaking HERE, is where all the crap happens!"

"It never happens in the past," I continue, absolutely convinced I've lost everyone in the class, but pushing ahead nonetheless, "P sub T minus 1. Ooohhh noooo! That would be too damn convenient! And your whole world doesn't collapse around your ears in the future, F, either, ohhh noooo! It always happens right freaking now, RFN, in the present, which we angrily denote with that dagjabbity, blangity blang P, P, P, P!"

And then I draw a lot of arrows coming in from every angle to converge on the present, P. And then I hastily draw a B- 52 bomber flying above it all, and have it dropping bombs on that cursed letter P, too, and make very realistic explosion noises as the bombs explode.

"Kapow! Boom!"

And I draw lots of squiggly lines to illustrate bombs exploding and destroying everything. And then I draw a few bolts of lightning striking it, with the appropriate sound effect, and then I just viciously smash the poor little piece of chalk into it over and over, over and over, until the air is filled with a cloud of atomized chalk dust.

"But we just showed that Americans borrowed heavily, BH, to bring future more-consumption, FMC, into the present, P, which exported present less-consumption. PLC, into the future, F, which is now the present, P, whereas it was once the future, F, but now it is already the past, N sub T minus one. So what we have, canceling terms, collecting variables, is that current consumption, C, has been exported to the past, JQR, and less consumption, PMV, has been imported from the past, XCB, into the present, zippity doo dah, and that is why the future, FMXJRB, is, is, the, is..."

My voice trails off, and I collapse to my knees, head sunk to my chest in weary resignation, exhausted and spent by my valiant efforts. Confused and depleted, I am ready to just assume that the United States will win the lottery.

Regards,

The Mogambo Guru,
for The Daily Reckoning

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Mogambo Sez: The market will probably hold up until the end of the month as the end-of-quarter window dressing takes place, and as loser money managers sell their losers and buy the stocks that were winners.