

# A Financial Fiasco

By [The Mogambo Guru](#)

11/22/04 The voices in the Mighty Mogambo's head are getting louder...so loud, in fact, that he needs to share with us what exactly they are screaming about. And yes, you guessed right, it does have to do with the Federal Reserve.

The fact that the stock market is going up at the same time as the dollar going down, along with all the other economic headaches both domestic and foreign, is just too, too weird for me, and I thank my lucky stars for the calming effect of modern pharmaceuticals, doctors who are not squeamish about keeping me overly-sedated and a wife who prefers it that way. Otherwise, I would be in Pure Mogambo Panic Mode (PMPM), and remember that I am the guy who invented the concept of hooking a machine gun to a motion detector just because I was merely "anxious" about something, probably about those Girl Scouts and their cookies and how it may NOT be just a coincidence that our whole bankrupting mess started about the same time as they started peddling their delicious treats door to door. So it was with trepidation, which I define as "Hoping that my heart doesn't explode from the shock" that I meandered through the Market Laboratory section in Barron's.

I see that a lot of the money for the recent spike in the stock averages came from total Fed credit going up \$1.4 billion, and the Fed continued that blatant monetary fraud known as U.S. Government Securities Bought Outright, and it was up another \$1.8 billion. So if we add these two numbers together we get, wait a minute here while I get my calculator out, \$3.2 billion dollars. If this number looks familiar to you, perhaps it was due to a recent newspaper headline that you probably saw, "Armed Lunatic Screaming About \$3.2 Freaking Billions of Freaking Dollars in One Freaking Week!"

And then we cruise on over to the actual banking side of the system and note that they ALSO bought up a lot of government debt last week, if you are the kind of person who thinks that \$5.1 billion is a lot. I am, personally, one of those old-fashioned guys who still thinks that 5.1 billion of anything is a lot, and especially if that 5.1 billion of anything is accumulated in one crummy week.

And while we are still snooping around in the banks, I notice that Required Reserves never seem to go up, although every time I get out a book on economics I am always reminded that 1) I am an idiot and that I don't seem to understand any of this stuff, and 2) I am always reading things like how banks set aside reserves as some big percentage of liabilities, and the starting place for every example is that we are asked to assume that reserves are 10% of liabilities.

## **Economic Disasters: 400% of GDP**

Keeping this classical 10% figure in mind, I look around at the banks and I am surprised to note that Required Reserves are always essentially unchanged, especially since the banks' assets and liabilities have both been increasing like gangbusters all this time, all these years, right along

with the growth in M3, and right along with the growth in total debt extant throughout the whole freaking country until, and I think I read this somewhere but I know it is about right, the total debt (personal, business, local, state and federal governments) is now over 400% of GDP. 400%! My knees buckle at the very thought of owing four times as much as everything this whole freaking country produces in goods and services in a whole year. And this is right along with the growth in house prices, and right along with the growth in the price of every damn thing you can name that can be measured in money, and especially those things that can be measured in terms of MY money.

But Required Reserves are still hovering around some piddly \$45 billion, while Liabilities are north of \$4.5 trillion, which makes Required Reserves a nice, round 1%. One percent! Now you know why almost all economic disasters start in the damn banks.

It is spooky. In fact, every time the wife and I are on our way somewhere in the car, she productively uses the time and opportunity to list a few hundred of my most recent faults that have come to her attention. And then it predictably gets into that crap about how I don't pay any attention to her, and things would better if I would only listen to her once in awhile, and blah blah blah, and pretty soon my mind is wandering, and I start thinking about economics, because all I ever do is think about economics, and this is because, and you might want to write this down because it is THAT important, everything is always about the money. To repeat myself, and it bears repeating: Everything is about the money.

But after awhile, while my wife is winding up her remarks about my more glaring personal faults, I look forlornly out of the window of the car, gazing at the passing cars, and I see the people driving those cars, and I think to myself, "All this debt misery I write about, and am fearful about, and am getting more and more nervous about, and now that I am talking about it I can hear those voices in my head getting louder and louder, is being borne by you. And you. And you." And as each car goes by, I think of their dire financial situations that are at the root of the total debt in the American and other economies of the world, and my heart goes out to them.

Meanwhile, back in economics land, foreigners decided that they would hold their noses, bite the bullet, and buy another \$5.1 billion of U.S. debt and store it at the Fed. If you go to the Mogambo Dictionary, you will find that when I say "foreigners" in this context, I mean foreign central banks. And the reason that these foreign central banks started buying our debt again is that these selfsame foreign central banks are reeling from the pain of listening to people, powerful people, with money invested in U.S. debt, who are screaming on the phone, everybody wanting somebody to get up off their big butts and make us Americans do something about our financial problems because they are losing money on their portfolios. Now, if you are like me, you assume that all foreigners are backwards idiots who dress funny and stuff their portfolios with cheese and the icky parts of dead animals. In reality, it turns out; their portfolios are crammed with, along with the aforementioned cheese and animal pieces, U.S. debt and equities. The downside is that after a while, the cheese starts to stink, the meat products go rancid, and, once their dollar holdings are exchanged/translated back into their local currency, they are finding that the whole portfolio stinks.

Regards,

**The Mogambo Guru  
for The Daily Reckoning  
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