

# Crazy-Making Cognitive Dissonance

By [The Mogambo Guru](#)

03/29/04

Double-digit commodity inflation, soaring cost of energy, producer prices at a 9-year high...and yet Greenspan's posse insists that no, there is no and will be no consumer price inflation. The mind reels!

The CPI increased by 0.3% in February, and the news flash was slipped to me under the door of the Mogambo Bunker, as I had been dreading the announcement. One of these days we are going to see not only inflation, but roaring price inflation, which is guaranteed by all the monetary inflation.

The Associated Press tried to find a little silver lining in the news, and reported that "The increase in the Consumer Price Index marked a slowdown from the 0.5 percent jump registered in January." Ain't dat nice?

Then the press all apparently went to lunch and got real drunk and bought some mind-altering drugs from some guy on the street named Carl on the way back to their offices, and this allowed them to continue in Greenspan-speak. I can imagine that they spoke with slurred voices, swaying unsteadily on their feet, their pupils alternating between dilated and constricted, as they said that "Excluding energy and food costs, 'core' consumer prices rose by just 0.2 percent in February for the second month in a row. That suggested the prices for many goods and services were fairly stable."

## **Price Instability: Same Inflation=Price Stability?**

See? If inflation is the same for two months in a row, no matter how much higher prices are, then prices are stable. Wow! See how simple this stuff is when you're the government and you can't be fired for saying something so stupid that you would slap your kid if they dared insult your intelligence like that?

Of course, the press included the obligatory corroboration that "Federal Reserve Chairman Alan Greenspan and his colleagues said inflation is not a problem for the economy." What they meant to say is that Greenspan and his colleagues said that disguising and lying about inflation is not a problem for the economy, because it is not a problem for them, and they figure that they ARE the economy! So, no problem! Yet you can't pick up a newspaper or hear the news or listen to one of your irritating neighbors these days without hearing a whole lot of whining about the high cost of things.

And almost at the same time, we have this Greenspan person telling us that prices are not going up! It makes you crazy at the cognitive dissonance, when supposedly educated and trustworthy

people are telling you that what you are seeing with your own eyes is not happening right in front of your own eyes!

On the same day last week, crude oil went over \$38 a barrel, commodities zoomed in price, and gold jumped \$4.50...so it looks like these are examples of things that are NOT "stable" in price.

Similarly, the Economist magazine notes that their dollar-based index of commodities has risen by 28% since January 2003. The yen-based inflation is right behind it, at 17%, followed by the sterling index at about 12%, and then by the euro-based index, at 10%. The lynx-eyed among you will no doubt notice that in every single instance the inflation in commodities was in double-digits.

Then, and I hope you are sitting down for this and have an IV inserted into you arm that is dripping some kind of powerful tranquilizer into your veins by the quart, the long-awaited PPI came out, and the guy who delivered it to me must have glanced at the page and noticed that it said that prices were up strongly. It doesn't take a genius to realize how that kind of news is going to affect me, so he just tied it to a rock and heaved toward the Bunker du Mogambo. It hit the door with a thud and lay there on the ground. I fired off a few bursts from the Mogambo Machinegun System (MMS) to suppress any incipient hostile activity, and I quickly opened the door to the Mogambo Fortress of Solitude and snatched the report up off the ground and ran back inside. Quickly slamming the door shut, throwing all the locks and activating the Mogambo Monitoring and Surveillance System (MM&SS) into Full-On mode, I gobbled down a few nitroglycerin pills as a wise precaution, and then leisurely read that prices were up for the month, and by 0.6%. In March, the Philly Fed's prices paid component surged 9.7 points to 53.4. The 'prices received' subindex climbed 3.7 points to 22.6. Both are at the highest levels in nine years.

My immediate reaction was an involuntary tightening of my trigger finger as I staggered about clutching my heart, and then, according to expert testimony, was enveloped in a confluence of outrage, fear, and panic in doses that were, according to sensitive instruments developed specifically for the purpose, off the charts!

### **Price Instability: Prices Going Up Doesn't Mean Prices Went Up**

Of course, there was the rush by government wonks and the stupid class of people in America, which is the class known as "American economists," who all decided that prices going up did not mean that prices went up, and even if they did, then it is okay, and it is nothing to get worried about, and that it actually meant that this was the perfect time to buy some stocks or bonds or houses or something.

And then the next day, in the WSJ column "Ahead of the tape," by Aaron Lucchetti, we read that "The big question for bond investors is whether factories and other 'producers' will eventually pass on some these small, but growing, price increases to consumers." Then we are treated to the opinion of an American economist, namely Michael Ryan of UBS Financial Services, who thinks that maybe these producers will not be able to pass along those price increases to consumers. He says that while there is a historical tendency for consumer prices to rise following producer prices rising, "It doesn't always transfer."

"Historical tendency." I like that.

Well, I am here to tell you and Mr. Ryan that rising producer prices rising are always paid by somebody. Either the consumer pays them, or the stockholders pay them in the form of reduced profits. Either way, somebody pays, and they take the whack to the head.

Christina Wise of Investors Business Daily wrote a column entitled "PPI Rose 0.6% in Jan; Prices Up in Pipeline," and it shows that she is on the same page as the Mogambo, too, as she writes, "Others see inflation ahead, saying eventually higher production prices will be passed on to consumers."

David Littmann, chief economist at Comerica Bank, pretty much agrees with me and Christina's un-referenced "others," and says, "All commodity prices are up and I think that's a worrisome sign because these wholesale prices do precede CPI. There's no nice way of toning it down. It presages a great deal higher inflation next year."

So, will producers be able to pass along the higher prices? I am here to tell you that there are very few stockholders that are going to let the executive management staff sit around on their fat keesters, soaking up gigantic loads of perks and benefits and stock options, while the income of the stockholders goes down, all because the company is absorbing higher costs. Those managers who are still around next year at this time will have figured out some way, some ingenious way, some desperate way, to increase the prices that consumers pay. And if you want REAL "historical precedent," this is it.

Regards,

**The Mogambo Guru  
for The Daily Reckoning  
March 29, 2004**

— Mogambo Sez: Each day I wake up more scared than the day before.