

Dressing Up Inflation

By [The Mogambo Guru](#)

04/19/04 Mogambo on Monday! In today's episode, our favorite Guru unveils this season's Spring Spin on the ugly "I" word. But spin or no spin, how long can the feds conceal their object's true nature?

I know that you remember how the Mogambo heaped scorn on the whole idea of the Fed creating more money and credit to produce a reflation. I know what you are thinking. You are saying to yourself, "The Mogambo never said anything about reflation, because all he ever talks about is how alien beings from another dimension are tampering with his mail." Well, that is true.

So let me correct that oversight, and say that inflation is always bad, and that reflation is merely putting a New Age prefix on inflation – but one which results in an added piquancy of a delightful hint of benefit to it, like a refreshing hint of Spring or something, as it makes the price of assets rise.

But reflation is just inflation dressed in a frilly hat. So why would any government that had an IQ above that of a slug do such a thing as try to reflate/inflate the economy? Ah, my darling quizzical one! My heart soars to hear you speak with the Wisdom of the Ages! But you are not the first one to ask that question of the Mogambo. In fact, the only question MORE popular among the Seekers of Enlightenment that sit at the feet of the Mogambo is "What is that stink?"

But the Mogambo is now saved from any future threats of exertion such as thinking or answering questions, as now all I need to is to smile knowingly, languidly raise my finger, and point to the "Cycle Pros" on Geocities.com, where Mr. Stephen J. Williams has provided the answer. "Inflation is a stealth tax and has a very efficient built-in collection scheme...everyone holding dollars is affected and everyone's purchasing power is diminished, therefore the collection of this 'tax' is 100% efficient. And to make it even better, there is no paperwork to fill out, no check to send in, no harassing telephone calls from the tax collector, and the government can continue to print all of the dollars it wants so it can continue a free spending policy." And, of course, higher prices means, ceteris paribus, more sales tax collected at the state level, with which to fund THAT particular cancer.

Reflation: "You Are a Worthless Collection of Lunatics"

But the worst thing is, despite ludicrous protestations to the contrary, this little stealth tax has already thrown itself into its dirty work. With a vengeance.

Newsflash to the media of the USA! Dateline: Deep inside the Mogambo Defensive Bunker. "Flash! A heavily armed, raving lunatic posing as a Concerned Scientist with graphs and charts and all that scientific stuff has issued this important bulletin! He reports that, once again, Alan Greenspan has proved that you are a worthless collection of childishly trusting lunatics, and are

raving mental incompetents to boot, as he looks you right in the eye and tells you that the price inflation that you are seeing with your own eyes, at least before Greenspan started looking into your eyes and trying to hypnotize you, is not happening in front of your own eyes! And you believe him!"

If you read down farther into the article, you will see where I say, "I mean, import prices increased 0.9% last month, yet Greenspan has, according to the Wall Street Journal, 'discounted that risk' of inflation! Petroleum prices are up 6.1%, and Greenspan has probably also 'discounted that risk' of inflation, too! Export prices rose at the 'fastest rate in nine years,' surging at 0.9%. Greenspan, of course, has doubtlessly 'discounted that risk' of inflation, too."

And in looking at the back pages of the Economist magazine at the Dollar Index of their Commodity Price Index, we note with alarm that, in the last year, All Items are up 32.8%, Food is up 27.3%, All Industrials are up 40.9%, Non-food Agriculturals are up 22.6%, Metals are up a blistering 58.5%, oil is up 22.6%, and gold 29.3%! How in the hell everything can be up between 22% and 58%, and Greenspan and the other Fed pea-brains can claim that inflation is "low," is beyond me.

Reflation: Services and Commodity Costs

Well, the facts are not lost on everybody, as on Monday the Wall Street Journal had a front-page article entitled "Price Increases in Asia Fan Inflation Fears in U.S." After using a lot of ink relating the eyebrow-arching rise in the prices of everything that you can name, and even things that I cannot even pronounce, they quote a lot of Fed officials who are all in agreement that the Mogambo is an idiot, and if you think that inflation is rising just because prices are rising, then you, too, are an idiot.

They go on to announce that labor is about 65% of production costs in goods and services, which makes a kind of weird sense, since services HAVE no commodity costs inherent in them, which I can verify because I went to the barber last week and I did not see a single bushel of soybeans in the whole place.

On a more personal level, I report that the government is, as you are no doubt aware, out to get me, and sure enough, last week my washing machine finally quit. It was so old that the lousy timer to fix it was \$61 freaking dollars. But my wife was getting tired of the rusted exterior, the dripping water, getting a shock when you touched it, the sparks flying, that smell of burning insulation, the weird permanent stains on the clothes when they came out of the thing, the banging and clanging and blah blah blah, so we bought a new one. It cost \$320, tax, tag and title. But, and this is the part that kills me, the delivery charge would have been \$70!

My mind reels! People can mine, ship and smelt ore, collect, ship and refine other materials, produce metal and plastic parts, assemble it into a heavy machine, pack it up, ship it across country, keep it in inventory, sell it to me, pay sales taxes of 7%, and all for \$320. But to go that last three miles would cost almost another quarter of that!

So the fact that labor is a BIG part of production of goods may indeed be true. But the Fed boneheads think that because they can break those costs out of the price means, I guess, that it no longer has anything to do with inflation! Weird!

But to get back to the big picture, so, do ya wanna know how much money it will take to keep this little reflation gig going for a year? Me, too. If you asked me how much money it would take to fund a general reflation for year, I would avert my eyes and give my usual classical, textbook Mogambo answer, which is to shrug my shoulders, and mumble "I dunno," and then turn it back on you and give you a vicious third-degree on "Why you want to know? And why are you asking ME that question anyway? You trying to make trouble? Is that what you want? You want a piece of me? Huh? Is that what you want? You want a piece of me, punk?"

Reflation: Can Anyone Spare \$3 Trillion?

But fortunately it didn't come to that, as James Cook of Investment Rarities, in his article "Boom or Bust," has helpfully done the math for us, and he figures that about three trillion bucks ought to do it. Now all we gotta do is ramp up three trillion smackeroos and have somebody borrow it all, and put that mountain of money into stocks, and bonds, and houses.

See how simple this economics stuff is? This stuff is easy! I mean, how much do we overpay this Alan Greenspan character and all those other Fed guys anyway? A retarded chicken pecking at a computer console, mindlessly pressing a button emblazoned with the words "Increase credit" could do every bit as well. And if a mental-defective chicken WAS appointed as Fed Chairman, whenever this new chairman gave a speech, the people in audience might even get an egg, which is, I am sure you agree, a lot better than what the audiences who listen to Greenspan speak get, which is to have their heads filled with lies and optimistic mumbo-jumbo, which has no nutritional value at all. So what do you want? An egg that you can make into a delicious omelet, or vacuous mumbo-jumbo? The choice is yours.

All it takes, and you might want to pay particular attention here because this is the crux of the matter, is to convince a bunch of guys to borrow the money and, for reasons that befuddle me, invest it in those overpriced assets. Then the prices of the assets will go up some more. Or, as we say in the economics biz, reflatates.

And with the right incentives, notably tax-related, there is no reason to suspect that it cannot initially work. Will Congress step up to the plate and do something heroic and stupid, a kind of desperation-induced "clutching at straws" legislative nonsense? Who knows? Congress knows. And since you know Congress, you know the answer, too.

But believe me when I tell you, and pay attention to the look of deadly seriousness on my face and stop staring in dumbfounded disbelief at the size of the inflamed pimple on my nose, that you are going to repay every dime of that borrowed-and-spent money, in the form of higher taxes and higher prices. Every freaking penny. For such are the Iron Laws Of Economics.

Regards,

**The Mogambo Guru
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— Mogambo Sez: It just keeps getting weirder and weirder, and I am struck by the fact that there has never been a published theory of economics that postulates that the basis of economic prosperity is monetary and fiscal stupidity.