

Forces of Nature

By [The Mogambo Guru](#)

05/10/04 Has Greenspan been building upon a firm foundation? We'll soon find out...the big bad wolf is at the door, threatening to blow the economy down in a whirlwind of inflation...

I just saw another of those dreadful shows about why the pyramids look like they do, and how the universality of this building plan all around the world is evidence of communication between the cultures, countries, and continents...which is a nice piece of alliteration and I didn't even plan it! It just came out! I don't know how I do it, or even why, mostly because the big shot mental health professionals assigned to my case keep assuring me that "You don't want to know. Trust us. We're professionals."

The fact is, if you want to build higher and not have your building collapse, then there is no other shape that is possible.

Our ancestors must have tried squares, because their houses were square. And obviously it failed, as it must. So what to do? Round? No, too many problems, the most important being that the round rocks tended to run away downhill, since back in the old days, they did not have a United States Congress to solemnly pass laws against that insidious and terrorist-influenced Force of Nature that is Gravity. If they had taken the precaution of electing preening morons to their government, like we have, they could have made it illegal for the Forces of Nature to operate within fifty feet of a tall structure, or within a thousand feet of a school just to show you that we are always "Saving the Children."

Pyramid construction: Gravity

So, round is out. How about triangular? Nope. The second layer of triangular stones would have had all the weight concentrated at a point, breaking the stones. Ergo, that is why all tall structures are pyramids, on a square base, made with rectangular stones.

With pyramids, it all comes down to one thing – gravity. The same goes for economics. You can try and make an economic structure out of many things, arranged in many ways, but there is one thing – inflation – that will always bring it down. And that is why I am so fixated on inflation.

On the Bloomberg news site, we read, "The Personal Consumption Expenditures price Index, a measure of inflation watched by Greenspan and other policy makers and tied to spending, rose at a 3.2 percent annual pace, the fastest in three years. Excluding energy and food, the core index rose 2 percent at an annual rate, the biggest rise since the third quarter of 2000."

But these figures are not adjusted for inflation. So what was that deflator? "The GDP price deflator used to adjust the figures rose at a 2.5 percent annual rate compared with a 1.5 percent rate in the fourth quarter." So adjusting for the change in prices makes the picture a lot less rosy.

And remember that prices are chained, and that the inflation measure carries around with it all those low inflation costs from months and months ago. "Once upon a time, bread was cheap, because they had just invented bread. So we are keeping those low costs in the inflation gauge, even though they have no meaning whatsoever to you bozos in the checkout line at the supermarket today."

Furthermore, these inflation figures do not include those two pesky components called food and energy. What is the inflation rate of THESE two components? Nobody likes to talk about them, but oil hit \$39 a barrel this morning, and I don't pay any attention to food prices any more, as all I can afford to eat is cat food, which is, in case you were wondering, going up, too.

The Christian Science Monitor contains an article titled "Inflation Hits the Family Dinner Table," by Ron Scherer, who writes: "In the category most families would relate to – food and gasoline – prices rose at a 5.3 percent annual rate." But even this may be too low – I've heard a 7% figure bandied about, which is also probably too low, seeing how gasoline alone is increasing by about 1% a week, and every time I turn on the TV to get the news, some cute little thing is looking into the camera and saying: "Gasoline prices are hitting new record prices at the pump" with her mouth, while her beautiful eyes are saying: "I want you, I lust for you, I am burning up with passion for you, Mogambo!"

Pyramid Construction: This Inflation Thing

And it just keeps getting worse. No, it's not my incapacitating paranoia or repulsive personality, but this inflation thing. Bloomberg further reports, "Benefit costs – which include severance, health insurance, vacation pay and referral bonuses – rose 6.9 percent over the past 12 months, compared with a rise of 6.1 percent in the prior year. U.S. costs for labor jumped 1.1 percent in the first quarter, as benefits costs rose the most in more than two decades." Two decades!

In a similar vein, "The employment cost index, a gauge of labor expenses for businesses and government, climbed 0.8 percent in the fourth quarter, the Labor Department said in Washington. Benefit costs rose 2.4 percent from January through March – the greatest rise since the third quarter of 1982 – and wages and salaries rose 0.6 percent, the government said."

And we can thank Greg Ip ("Thanks, Greg!"), a columnist for the Wall Street Journal, for helping us identify the culprits in this horror. He posted an interesting article in last Friday's edition, entitled "Fed May Have Acted on False Alarm," wherein we read that the Reserve Bank of Atlanta concludes that "most of the drop in inflation between 2001 and 2003 was due to unusual behavior of residential rents and used car prices indirectly caused by low interest rates."

So, once again, the Fed acted like a gang of clueless chumps...and like ignorant children randomly playing with their little computers and their precious little models, they incorrectly and stupidly overemphasized how the Fed's idiocy – desperately pounding down interest rates to negative real rates – affected things. Mr. Ip concludes, "If the study is correct, underlying inflation may not be as low as it appears." Well, I have no idea if the study is correct or not, but if it comes from anyone connected with the Federal Reserve, then I am pretty sure it is chock-a-block full of stupidity, lies, and outright fraud. But I don't need no stinking Fed study to tell me

that inflation is higher than they say it is, as I already have whole armies of snotty checkout clerks who remind me of that every time they hit the "total" button on their cash registers.

Pyramid Construction: Power-Hungry Bozos

The Ip article goes on to say that "The study, which made no inferences about monetary policy, doesn't represent mainstream Fed thinking. Chairman Alan Greenspan and most of his fellow policy makers consider productivity growth and the degree of unused slack in the economy more important to the course of inflation than the behavior of individual prices." Huh?

Please permit me to interpret this for you. In plain English, the majority of the power-hungry bozos at the Fed are in total agreement that prices going up do not, in fact, mean that prices are going up. They have also decided that the blazing sun being directly overhead does not mean it is daytime, and by their calculations the correct time is three minutes past midnight. They further conclude that since there is some slack in the economy – the result of idiotic, massive overbuilding during the boom years – prices should not have gone up. And even though they did, of course, go up, this just means that prices are rude, and Miss Manners thinks that you should just ignore rudeness. So they ignore higher prices, bringing us back, once again, to their official announcement that prices are not going up, even though prices are going up.

Of course, the dimwitted "mainstream Fed thinking" indicates that they do not consider gigantic, mind-blowing creations of money and credit to be important to the course of inflation, especially as it pertains to prices, which is somehow, weirdly, perversely, not important to them at all. If there was ever a reason to gather the townspeople together and follow the Mogambo on a march to Washington DC, as an unruly mob singing witty and catchy tunes about how the brave proletariat worker will arise in glorious revolution to throw off the shackles of the hated ruling class and take our Flaming Torches Of Freedom to the Federal Reserve and to drive those idiots out into the street and give them a good thrashing, it is their bizarre insistence that price inflation has nothing to do with prices rising.

Ergo, rising prices are not rising prices. It is beyond insane to even say such a thing. Beyond Orwellian!

Regards,

**The Mogambo Guru
for The Daily Reckoning
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— Mogambo Sez: The recent downdraft in gold is a buying opportunity, and I hope you took advantage of it. The investment paradigm of the next, oh, zillion years or so, will be to buy gold and commodities on dips. Thus spake the Mogambo.