

Lie and Keep Lying

By [The Mogambo Guru](#)

09/20/04 There have been six major economic recoveries in the postwar period. They all had vigorous income and employment growth in common. But what about the most recent recovery? Let the Mogambo explain...

The One Big Thing (OBT) that I am constantly screaming about, and screaming about, and screaming about, is inflation. I scream about inflation until I am hoarse from screaming in fear about it, and my throat is so sore that I am now reduced to writing apocalyptic warnings on large placards and standing by the side of the road, maniacally waving them at people who are stopped at the traffic light.

Even my dog has started whimpering and frantically scratching at the door to be let out every time he hears the word "inflation."

Mr. Ure, of UrbanSurvival.com, notes that crude goods prices are up 22.4% year over year, and that intermediate goods are up 8.1% year over year. This is inflation writ large. But somehow, finished goods are showing no inflation! How can that possibly be?

Well, with so much competition engendered by a Federal Reserve banking system that gave loans to anybody who wanted to start or expand a business, firms that raise prices make fewer sales, so the firms have to eat the higher costs. He says, "What it means is that prices paid for crude and intermediate goods that are used to make finished goods have continued to increase, while the pricing power for finished goods has only kept pace with inflation – if that. It squeezed profits generally, and that leads to layoffs."

And if I may add my usual snide remark, companies that are laying people off are not famously known for simultaneously raising wages, except to the weird computer models and the hundreds of weird little low-IQ "economists" at the Federal Reserve.

But wages are not rising as fast as prices, which means that people buy less with their static paychecks, which means that factories sell less, which means that factories produce less, which means they don't need as many workers, which means that there is a glut of labor, which means that wages are not increasing, due to a lack of demand for labor, which gets us back to the beginning, where we learned that the Mogambo is screaming, screaming, screaming that wages are not rising as fast as prices.

Mass Layoffs: Not Uniquely American

Mr. Ure goes on to say, "As anyone can see, the mass layoffs in July were up significantly, and we have to wonder what the August report will look like. The mass layoff picture clouding up again is not a uniquely American problem, either. We note, for example, that in Germany,

Volkswagen is saying that up to 30,000 jobs are at risk if workers don't accept wage freezes and benefit reductions."

"Wage freezes and benefit reductions" is another way of saying, "Your stinking little paycheck ain't a-gonna buy as much stuff from now on, my darling little herrenworkers and frauworkerettes, and you might as well get used to having a lower standard of living." I'm not even going to mention the fact that every year from now, your standard of living will get lower and lower and lower until finally, you can't take it anymore and you scream, "The Mogambo was right! They are out to get us!" and you reflexively grab flaming torches and pitchforks and rise up in an angry, rebellious mob bent on blood revenge."

Kurt Richebächer, who is everybody's favorite Austrian economist-type dude, probably because he is a really nice guy and is not, like me, a foulmouthed gun-wielding gold bug raving lunatic bastard always on the verge of going berserk in a blazing rage of homicidal fury, is also up to speed on this inflation and wage thing and says, "Looking for clues in history, we have pored over the data of past economic recoveries from recession in the United States. Altogether, America experienced six upturns during the postwar period."

So, let's see here; That's about 60 years, and there have been six upturns. Quickly reading ahead so it looks like I have a thoughtful, cogent comment, I innocently ask, "Mr. Richebächer, what did those six upturns have in common?" Playing right into my hands, he says, "They had many features in common, both in speed and pattern. Most striking among them was their extraordinary vigor in employment and income growth. Manifestly, all the recoveries were job and income driven."

Makes sense to me! If you make more money, you get to spend more. If you spend more, factories will produce more. If factories produce more, they must hire more labor, which bids up the price of labor, which means you make more money, which means you get to spend more. Man, I love this economics stuff!

Mass layoffs: Make More, Spend More, Produce More

I suddenly find myself dancing gleefully around, chanting, "Make more! Spend more! Whee! Produce more! Make more! Spend more! Whee!" I am up on his coffee table dancing my little Mogambo heart out in happy celebration when out of the corner of my eye I notice that Mr. Richebächer is calmly cautioning me to take notice of the fact that income growth is flat at best, and maybe even declining when viewed another way, and perhaps even plummeting like a stone when viewed through the Prism of the Way the Mogambo Views the Whole World and Everybody in It (TPOTWTMVTWWAEII), which is to see treachery, betrayal and impending catastrophic doom in everything.

This is where the Natural Instincts of the Mogambo (NIOTM) are made manifest, as I hear that (and follow my logic closely here) all previous recoveries had "extraordinary vigor in employment and income growth," but our current "recovery" has neither of them.

I fixate on the part that says all recoveries have extraordinary vigor in employment and income growth. I stop dancing. I sit down. I stand up. I look around. I notice that we do NOT have extraordinary vigor in employment and income growth. I ask with a plaintive cry in my voice, "Hey, Mr. Richebächer! Do you see any extraordinary vigor in employment and income growth?" He says nothing, but shakes his head sadly, which I assume means, "No."

Mass Layoffs: A Lack of Vigor

This means that, ummm, it means that, ummm, well, I admit that I have lost my train of thought. But it seems to me that there was something significant about the fact that all previous recoveries had extraordinary vigor in employment and income growth, and the fact that we currently have neither extraordinary vigor in employment nor income growth seems like it should mean something significant. I can't exactly put my finger on what it means, but maybe you, with your giant, computer-like brain and your fancy-schmancy education can make something out of it and then explain it to me.

But since the significance of those two things escapes the Perpetually Confused Mind of the Mogambo (PCMOTM), it seems obvious that I could not possibly come up with a remedy. But it would be foolish to discount the government not coming up with a plan!

If wages are not rising as fast as prices, then (and I hope you love this as much as I do) let's do something about prices! And since we cannot actually lower prices, then the next best thing is to do what government does best: lie and keep lying!

UrbanSurvival notes that the government has already employed "creative lowering of the measured inflation rates through hedonic pricing and other devices." And not content to show how much smarter they are than that idiot Mogambo, they even give the reason why the government is doing that. "Always keep in mind: One less percentage point in inflation equals one percentage point higher in productivity growth. In other words, GDP growth is grossly overstated."

Lie and keep lying!

Regards,

**The Mogambo Guru,
for The Daily Reckoning
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*** The Mogambo Sez: There is a theory going around that the dollar may soon, paradoxically, strengthen because there is such a universal consensus that the dollar must fall in value. In short, the market does the opposite of what everybody thinks, and since everybody thinks that dollar should fall, it will rise.

The reason that people think that it should fall is that there is no fundamental reason for the dollar NOT to fall, as it is being actively devalued by the Federal Reserve every day of the week.

If it does rise, the price of gold will probably fall. If it does, then try and contain your joy at what will probably be the last time that you will ever get to buy gold that cheap. If this does come to pass, I assume that, because you are a smart person, you will back up the truck and load up with the gift of cheap gold, as the long-term course of the dollar is inexorably down and the course of precious metals is, as a result, equally inexorably up.

And you don't have to listen to me, and only a real idiot would listen to anything I had to say. But you would be well advised to listen to Marc Faber, who also suggests the accumulation of gold, "as it is the only sound money," and that "Gold should be accumulated continuously." But he agrees with me, even though I am sure that the very thought of agreeing with me about anything puts a bad taste in his mouth, that there is also a lot to be said for the bull market in commodities, and he especially likes the profit potential of "corn and coffee, and especially sugar and orange juice." Me too.