

The Masked Economist

By [The Mogambo Guru](#)

10/25/04 Who is that brave and valiant man standing there, ready to take on the Federal Reserve and anyone else who stands between him and the good of the U.S economy? Is it Zorro, or could it be...The Mighty Mogambo?

The Fed decided those damn foreign bastards are getting wise to us and have apparently stopped buying our debt, as evidenced by the lack of increases in foreign holdings at the Fed, which are down about \$4 billion. So not only are they not buying MORE of our debt, they are selling some that they already bought! Bummer!

So why are these foreign dirtbags, who speak with funny accents and are not even civilized enough to celebrate Halloween by dressing their kids in weird rags and begging the neighbors for candy, NOT buying more and more of our debt so that we can continue to buy things on the cheap? For this part of our lecture, I turn the lectern over to Dr. Richard Appel, who recently posted his essay "Buy America II: The First Shoe Drops" on 321gold.com. He writes, "Further damage accrues to China as the result of the ongoing decline of the dollar. The dollar's fall is generating currency exchange losses for all of the United States' trading partners, including the Chinese. This threatens China's dollar holdings with further depreciation, and gives them an additional reason to find avenues to rid themselves of their dollars before they lose even more of their value."

And how much value has the dollar holdings of these foreigners lost? "From the dollar's peak at the end of 2001, its international value as measured by the U.S. Dollar Index has eroded by 33%. This places all external dollar holders in a very difficult position. They have already lost one-third of the value of their holdings, and are likely becoming frightened that they will lose more. The recent action by the Chinese in their effort to acquire Noranda and the Alberta oil sands may be the first obvious sign that one of the world's two largest dollar holders may have reached their limit."

Foreign Dollar Holdings: The Mogambo Leaps to His Feet

And before you start crying about these poor foreigners and how their stockbrokers lied to them about how all American stocks are a good buy, start thinking about your OWN situation when the dollar's purchasing value falls and the price of imports, like oil, shoots up.

Andy Xie of Morgan Stanley says, "China's boom is itself partly the product of the Fed's super-lax monetary policy." Well, you are a real rookie if you think I am going to stay in my chair after a comment like that! Veteran Mogambo watchers were not surprised to see me leap to my feet and say, "Hold on there, Andy Xie, if that IS your real name! I say that China's boom is COMPLETELY the result of the Fed's super-lax monetary policy!" Security guards are suddenly appearing from everywhere, and so I know I have to talk fast! So I say, the words tumbling out

in a torrent, "Did you think that the money would only stay in the country that created it? I laugh at the very thought!"

So that may be part of the reason why the Fed produced \$3.8 billion in Magic Money last week, giving their little slimy friends in the banks some money to play with. The Fed used some of that money to buy outright another \$911 million in U.S. debt, continuing to demonstrate their particular moral, ethical and intellectual bankruptcy.

Bill Gross has taken on the government's statisticians and Fed Chairman Alan Greenspan, saying they are a bunch of blatant liars on how they calculate inflation. Naturally, he has taken a lot of heat for saying that the emperor has no clothes. He accuses them of purposefully underestimating inflation to make the economy look stronger than it is and keep Uncle Sam's costs artificially low.

But he is not entirely alone. For example, there is the Mogambo, who is bellowing and thrashing around against the leather restraining straps and the handcuffs and swearing bloody revenge, and whose entire mental illness is an apparent fixation on inflation and how it is such a killer-diller. And then, on the other hand, there is Peter Cohan, a management consultant and author in Marlborough, Mass., who says, "There is just no way the CPI is reflecting the actual increase in costs that the typical American family faces. It doesn't pass the smell test."

Foreign Dollar Holdings: The Need for Adjustments

But a guy at Action Economics named Englund has a snappy rejoinder, and says, in effect – and here I am putting words into his mouth to make him look ridiculous because that is The Way Of The Mogambo (WOTM) – that the inflation figures are not adjusted for the smell test. It is an interesting line of thought, and it certainly deserves some government research grant money to look into, and then maybe we can have some research that inflation statistics OUGHT to be adjusted for smell according to the smell test. But in the meantime, we have to go with what we have, and that is for us all to be calm and to stick with the adjustments that they have already researched into existence. And Englund actually says academics have been studying this question for over a decade and have sophisticated research to back up the need for adjustments.

It's not obvious to a bozo like me, but then, few things are obvious to me, except that there are Mole People living under my house and eating all the cookies. But I am delighted to learn that sophisticated research has revealed a "need," and if there is one thing that leftists love, it is uncovering a "need" than can be addressed by some government program or new law, especially one that allows them to lie about the pernicious effects of their previous attentions to other "needs."

Mr. Englund goes on to say, "It is irrefutable that some adjustments have to be made for quality." Instantly, I leap to my feet with the agility and grace of a lithe panther, hacking and coughing because I ain't a young, agile and lithe panther anymore, and standing astride my chair, I throw my snazzy cape over my shoulder, resplendent in my telegenic and elegant bravado. I shout out, "Says who, varlet? You? Ha! I laugh! Hahahaha!" Grabbing a rope that was hanging down from the ceiling for some reason, I heroically swing onto the stage to confront the poor Mr. Englund.

He stands there, speechless. I stride confidently right up to him until my nose is almost touching his, and you can see that he is getting really nervous that this lunatic swinging onto the stage at the end of some rope and wearing some stupid cape is saying, "Verily I say unto thee, puny earthling, show me, how the German Weimar hyperinflation would have been prevented if only they had adjusted inflation for quality! Show me how the inflationary problems besetting Latin America for decades could have been prevented if they had only adjusted their crippling inflation for quality! For that matter, show me how the inflation that fomented the French Revolution could have been prevented if they had only adjusted their inflation for quality!"

Out of the corner of my eye, I see security guards rushing the stage, and so I grab the rope, swing to the top of the balcony and, leaping down onto my trusty steed, I gallop off into the night. The audience, stunned by what they have just seen, asks "Who was that masked economist stranger?" To which others reply, "I dunno, but he smelled like the Mogambo!" Little do they know!

Regards,

**The Mogambo Guru
for The Daily Reckoning
October 25, 2004**