# The New Fed Paradigm

By The Mogambo Guru

04/26/04 Inflation is not dead, the BLS admits…which, in Mogambo-ese, means it must be wildly flourishing beyond control. So why then does the Fed maintain its 'emergency rate' of 1%?

"For at least some investors," writes James Gipson of the Clipper Fund, "the relevant lesson of history seems to be that repeating the major mistake of the recent past is a really great idea."

To paraphrase in Mogambo-ese: "For the morons in the government and the Federal Reserve, the relevant lesson seems to be ignoring the One Great Lesson Of History." Namely, creating excess money and credit is a recipe that does NOT result in a delicious chocolate cake, but rather results in something else that is chocolate brown, alright, but much stinkier and spread all over everything in the economy after it hits the proverbial fan.

And the worst part is, this latter chocolate-colored substance is starting to appear where it's least wanted. Especially in prices, which are zooming skywards for everyone but, apparently, Sir Alan and his merry men at the Fed.

**Hyperinflation: "Fed Officials Should Get Out and Shop"**

"Fed Officials Should Get Out and Shop," says Caroline Baum in the title of her article on Bloomberg. "In the rarified atmosphere at 20th and C Streets, better known as the Federal Reserve Board, there is no inflation. In the parallel universe in which most of us live, prices are going up."

Ms. Baum is doubtlessly referring to the Bureau of Labor Statistics, whose latest fraudulent report revealed a 0.5 percent increase in the CPI, and a 0.4 percent increase in the core index, which excludes food and energy.

But "The price hikes are pervasive and led by the service sector, which is not energy dependent," says Bill Dunkelberg, who is the chief economist of the National Federation of Independent Business in Washington. So price rises resulting from the rise in oil are not causing this price inflation, he says.

Mr. Dunkelberg has also taken a look at recent prices action in finance, insurance and real estate, and found that nobody cut prices, while 43 percent of the companies raised them. Similar results came from the March NFIB survey, which noticed "the most aggressive price behavior seen since early in 2000," with 19 percent of all firms who have not had their phone service cut off and were hightailing it out of town one step ahead of the collection agencies, and who bothered to answer the phone, reported an increase in average selling prices.

So where does the Greenspan Fed get the idiotic idea that there is some deflationary crisis brewing? Where in the hell are the damn prices that are falling that are requiring interest rates to sit at their lowest level in half a century? Nobody can see them except this Greenspan twit and his little playmates at the Fed.

**Hyperinflation: The Hyperinflation Greenspan Won't See**

And this is very dangerous, because before you know it, the inflation that this Greenspan character doesn't see could turn into the hyperinflation he doesn't see. What happens in a hyperinflation is that people start buying things, anything, everything, desperately getting rid of their money, spending all their cash to stock up on these things that are going to cost more in the future because their money is going to be worth less in the future. And then prices rise like they were rocket-propelled in response to this heightened demand. The result is that everybody who has any money that they were not able to spend is gradually bankrupted.

And sure enough, Census Bureau statisticians report that "Some farmers have been pre-paying for their annual supply of fertilizer, getting a discount up front and immunizing themselves against price increases down the line. Some fertilizers are up 25 percent in price in the past year."

Then all this panicky buying makes prices go up even more, as a result of the old supply-demand dynamic, thus reinforcing the hyperinflationary price rises. Which causes more panicked buying. Which causes prices to rise even more. Which causes more panicked buying. Which causes, well, you probably get the idea.

But you wonder where the AARP is in all of this, as the Social Security benefits that its members receive every month are not going up nearly as fast as the rise in prices. The main reason for this decline in purchasing power of retirees is that the Cost of Living Allowance (COLA), with which monthly Social Security benefits are adjusted to for inflation, IS the fraudulent Consumer Price Index! So the government has engineered a fraud for the express purpose of robbing a lot of old people. Or as Richard Benson said in the title of one of his recent articles, "Using the Consumer Price Index to Rob Americans Blind."

**Hyperinflation: Trade Gap Narrows — Minimally**

In a similar vein and in a separate report, Bloomberg reports that in the "U.S. Economy: Consumer Prices Rise, Trade Gap Narrows." And sure enough the Commerce Department said that the trade deficit narrowed to $42.1 billion from a record $42.5 billion. Whoopee. A measly $400 million dollar change, or, in percentage terms, 1%, which is probably statistically insignificant, according to court-appointed psychiatrists who posit that 1% is the chance that I will ever say anything that is not laughably stupid.

"So far this year," Bloomberg tells us, "consumer prices are rising at a 5.1 percent annual rate." Perhaps this has something to do with the fact that "the dollar has lost 11 percent of its value in the last two years against a basket of currencies from the biggest trading partners."

Against all of this surging inflation, which you will remember is what the Mogambo confidently predicted as the lone voice squeaking in the wilderness like some brain-damaged rodent, pitted against the mindless cacophony of the multitudes of the other clueless jerks who bill themselves as "economists" and who, almost to a man, all took time out from filling in their Daffy Duck coloring books to opine that there was no inflation, and that inflation was dead, and how we will all spend the rest of our lives living in a world with no inflation, and how the Fed printing up all that money and creating all that credit had no connection to inflation, and blah blah blah. Jackasses.

Anyway, against all of this surging inflation, the Labor Department has been working double shifts to massage every bit of inflation from every price rise so that they could issue one of their laughable reports on the Consumer Price Index, so that they could show that inflation was non-existent. But even those corrupt wonks have now been overwhelmed by the sheer deadweight tonnage of evidence that inflation is NOT dead, but that it is rising by, at least, 5.1% a year. So you can take it to the bank that if those corrupt weenies are now backed into a corner enough to admit THAT, then the REAL inflation in America is undoubtedly much, much worse.

Of course, there are the inevitable opinions that the Fed will now be forced to raise interest rates to combat this surging inflation. I say, hahahaha! Says who? Who's going to make them? You? Hahaha! The Fed can sit on 1% rates forever if they want to, as far as they are concerned. And they probably will, as they have shown absolutely zero intention of doing what they are supposed to be doing all this time, which is to keep inflation from destroying the USA and to keep the idiot banks from financing ruinous bubbles, and I have serious doubts, make that VERY serious doubts, that they are going to start now.

In fact, Dan Denning of Strategic Investment says that the Fed CAN'T raise rates, "…until the final piece of the inflation puzzle is in place: rising consumer incomes. Until that happens, rising prices will simply make consumers cut back on spending. Throw in rising interest rates and energy prices and you have two more factors which lead to slower consumer spending and economic growth. Bottom line: the economy can't grow until the consumer can spend more. And the consumer can't spend more when prices and interest rates are rising."

Seems about right to me. So where does that leave us? Mr. Denning says, "Here's a prediction for you – the Fed will become so concerned with the market pricing in rising rates (and pushing mortgage rates up) that it will cut rates by 25 basis points at its May 4th or June 30th meeting."

So the old aphorism about how the Fed is supposed to take away the punch bowl after the party really gets started is now proved false. The new Fed paradigm is something more bizarre: the Fed is pouring pure grain alcohol down the throats of partygoers who are passed out drunk on the floor.

Regards,

**The Mogambo Guru**
**for The Daily Reckoning**
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— Mogambo Sez: I get the feeling that things are building to a head, sort of like a great big pimple. And, again like a great big pimple, when it bursts it ain’t a-gonna be a pretty thing.